The NATIONAL UNDERWRITER

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FRIDAY, DECEMBER 27, 1957

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The NATIONAL UNDERWRITER

61st Year No. 52 — *The National Weekly Newspaper of Fire and Casualty Insurance* — Dec. 27, 1957

Home Enters Life Field With Purchase Of Peoples Life From Murchison Interests

Peoples Life of Frankfort, Ind., ownership of which was purchased six months ago by the Murchison interests of Dallas, this week was purchased by Home of New York for a reported $7 million in cash.

The purchase price of Peoples Life was not announced but there were unconfirmed reports that Home paid $7 million for the stock. As of Dec. 31, 1956, capital was $300,000 consisting of 30,000 shares of $10 par value. The unassigned surplus at Dec. 31 was $1½ million and there was an item "special surplus funds" of $750,000. Thus the surplus to policyholders was $2.-550,000. Assuming an increase since then of $250,000 the total would be in the neighborhood of $2,800,000. A year ago there was an investment fluctuation reserve of $181,848 which is in the nature of a surplus item and there was a reserve strengthening item of $1,250,000. Insurance in force at Dec. 31, 1956, was $144,140,173. Assuming that the insurance in force now stands at least $150 million and assuming that $7 million was the price paid for the stock that would indicate that the price per thousand dollars of insurance in force was in the neighborhood of $30. That is, the cost of the business, on the basis of those assumptions, would be about $4 million and that, related to $150 million of insurance in force, produces the factor of about $30 per thousand. The business is almost entirely non-participating ordinary insurance.

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There was a net gain from operations in 1956, after dividends to policyholders of $389,469. Assets stood at $34,284,395. Insurance written was $26,404,419; interest earned ratio was 3.55.

The purchase of Peoples Life by Home adds another of the large agency stock companies to the list of those going into the life business either by purchase or formation of their own insurers. Within 18 months Federal has bought Colonial Life and St. Paul F.&M. has bought Western Life, and life companies have been organized by American Surety, North America, General of Seattle, United Pacific, American Casualty, and, a little earlier, Security of New Haven.

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Peoples Life operates in Indiana, Michigan, Ohio, Illinois, Iowa and California. As of June 7 when it was purchased by the Murchison interests, it had $150 million of insurance in force. Peoples Life was bought by the Murchison interests to become a member of Life Companies Inc., in which it joined Atlantic Life of Richmond, Lamar Life of Jackson, Miss., and Midland National Life of Watertown, S. D. as a group of insurers. The parent, Life Companies Inc., organized in 1955, confines its operations to reinsurance of life, A&S and annuity business derived principally from its controlled companies. Life Companies was sponsored and is controlled by the Murchison interests of Dallas, whose president is John D. Murchison and whose vice-presidents include Robert V. Hatcher, president of Atlantic Life, and P. K. Lutken Sr., president of Lamar Life.

Home has some 40,000 producers nationally. There was no immediate announcement of what Home plans to do in the way of developing business through Peoples Life. President Kenneth Black of Home said plans will be announced later.

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Rearden Elected Continental Director

William B. Rearden, president and a director of Firemen's of Newark and affiliated companies, has been elected a director of Continental of America Fore Loyalty group.



William B. Rearden

Mr. Rearden has spent his entire business career in insurance. He started as a clerk with the Cook county office of Northern of London in 1912. After field and managerial experience, he joined Loyalty group in 1929 as district manager at Los Angeles, and later became 2nd vice-president at San Francisco. In 1934 he went to the home office as executiv evice-president. He was elected president in 1956.

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Albert R. Jube, partner in the law firm of Chamberlin, Kafer, Wilds & Jube, New York, has been elected a director of Continental. He is a director and a member of the executive and finance committees of Firemen's.

Arthur B. Goetze, president of the Western Electric, has been elected a director of Niagara of the America Fore Loyalty group.

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NAIA Revising Cost Survey To Bring It Up To Date

National Assn. of Insurance Agents is in the process of gathering information in order to bring up to date its agency cost study. It already has received 1,200 replies out of 2,100 questionnaires on the subject, and after Jan. 1 will conduct presonal surveys of 1,110 agents scientifically selected for the study.

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Wis. Fire Rate Case Discussed

The Wisconsin fire and allied lines insurance rate case was discussed last week at a breakfast meeting of the Milwaukee Assn. of Insurance Agents. Thomas Irvine, American group, and Frank Schwoegler, assistant manager Fire Insurance Rating Bureau, spoke. They discussed the case on: Determination of underwriting profit, use of classified underwriting experience, determination of expense ratio, method of determining profit for companies deviating from bureau rates, and use of special rate schedules in Wisconsin.

Two-State Tornado Loss About $3 Million

Castastrophe No. 90 has been assigned to the tornado and wind and hail storms rippinng through southern Illinois and eastern Missouri last week, with insured property damage near $3 million, killing 15 and injuring more than 200 persons.

Western Adjustment set up storm offices in Mount Vernon and Murphysboro, Ill., as well as at Chaffee, Mo. Underwriters Adjusting sent in extra men where needed. Losses were estimated at Mount Vernon to run from $8,000 per home all the way up to $75,000 on about 85 dwelling losses in a select residential area. The wind also caused damage throughout the entire town, estimated at about 800 or 900 losses.

At Murphysboro there was a total of about 150 dwelling losses in one section, with damage at about $2,500 on each.

In the Illinois towns of Gorham and Rockwood and the extreme southern edge of Carbondale there were another 75 losses at about $2,500 each, and 1,200 to 1,500 at $200. The power plant at Murphysboro was very badly damaged, about $100,000 worth, and was the largest single loss.

At Chaffee the business section of the south side of town suffered 750 losses at $500 to $600 each, with the total loss estimated in excess of $400,-000.

High winds ranged through all of southern Illinois, parts of Indiana and western Kentucky, with losses at $8 to $10,000 for an overall total of $2 to $3 million, according to both Underwriters Adjusting and Western Adjustment.

In Washington, D. C., Small Business Administration named five counties in southern Illinois as disaster areas, being Jackson, Jefferson, Madison, Randolph and Perry. This permits owners of tornado-damaged property to apply for SBA loans at 3% interest for repairs and rehabilitation. Six Missouri counties were given like ratings.

National Board announced in catastrophe bulletin No. 114 that bulletins issued after Jan. 1 will ask that catastrophe losses paid under multiple peril policies for which statistics are normally reported to National Board be made part of catastrophe loss reports regularly supplied to that office.

The term "multiple peril" includes homeowners, commercial property cover, and office contents special form, as well as the new industrial property policies. All such data will be reported according to the major peril and classification codes used for the respective policies. Also, catastrophe serial following No. 99 will be 01, which was used for the first time in 1949.

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The Pittsburgh Insurance Telephone Directory has just been published by the National Underwriter Co. Copies may be obtained for $1 each from the National Underwriter Co., 420 East Fourth street, Cincinnati.

Oppose Regulation Of Unilateral Welfare Funds

N. Y. Should Limit Law To Insurers And Bankers, Say Jointly Operated Funds

NEW YORK—A proposal to extend the 1956 employe welfare fund act to regulate funds administered unilaterally by employers and labor organizations was roundly criticized at a hearing conducted by the insurance and banking departments. The law presently is restricted to jointly administered funds and programs.

Life Insurance Assn. of America and American Life Convention see the proposal as broadening the law to cover all employe welfare funds and all group insurance, Albert Pike, actuary of LIA, told Robert J. Malang, deputy insurance superintendent, who presided. The unilateral funds need not be put under the law, Mr. Pike said. The business accepts the seamy side of the law's disclosure rules in the public interest.

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Since the law is only a year old, more experience should be obtained before considering any amendments, said J. Paul Quinn, counsel of Health Insurance Assn. of America. New York should not make any hasty changes because other states look to it for leadership, he added.

William F. Lackman, vice-president of Guaranty Trust Co. of New York and chairman of the employe's benefit fund committee of New York State Bankers Assn., said his committee also finds no evidence that unilateral funds should be brought under the law. The banks and trust companies which act under employe welfare plans are professional trustees with many years of experience in handling all kinds of trust funds within the principles of law and practice that govern trusts. A recent banking department study of all bank-trusteed plans in the state disclosed no abuses.

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In unilateral plans, employers keep a watchful eye on the administration of the trust funds because any depletion of the fund might impose a direct burden on the company, Mr. Lackman pointed out. In addition, the corporate trustees of the funds are supervised by government authorities.

However, he added. the individuals who act as trustees of jointly administered plans are not professional trust administrators, yet normally have broader powers than corporate trustees. Corporate trustees are limited to receiving funds from employers, investing the money, holding the investments and paying the money solely on the instructions of the employers or a committee created by employers. On the other hand, the trustees of a joint fund often determine what

(CONTINUED ON PAGE 13)

Insurers May Have Hit Bottom But Need Better Rates, Underwriting, To Rise

By HOWARD J. BURRIDGE

Practically without exception, all officers of fire and casualty companies will heave a sigh of relief when 1957 comes to an end next week. This has been the most unfavorable year for property insurance companies since the San Francisco fire.

A year ago some optimists thought that the disastrous experience of 1956 could not be repeated in 1957. Instead, it was exceeded. In fact, it has been so bad that there are few who would venture to prophesy that 1958 will not bring a more unfavorable underwriting experience than 1957 has recorded. There is almost unanimous agreement that the outlook is not promising.

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There are many factors that have contributed to this year's almost unbelievably poor showing. Among them are inflation; high replacement costs; almost sensationally liberal court decisions in favor of insured, inadequate rates; continuing increases in operating costs; higher than expected loss ratios on nearly all package policies, and an across-the-board advance in loss experience on all classifications of business.

In 1957 the news was all bad. There were no rays of sunshine peeping through the clouds. This description of the year's results does not convey anything to the companies of which they are not already painfully aware. They know only too well what has happened to them this year, and see only faint hope for improvement in 1958, but improvement there should be.

It is true that some of the factors that contributed to this year's disastrous showing are either partially, or wholly beyond the control of the companies. But no change for the better will be made if there is only an attitude of despair and hopelessness. Looking at the situation from a detached viewpoint, there are several reasons to believe that the stock fire and casualty companies have hit the bottom of the downward curve, they have experienced the worst, and by attacking the formidable problems that confront them they can achieve solutions or improvements if their attitude is one of determination, agressiveness, courage and the conviction that in 1958 managerial study, research and talent can be made to produce an improvement in the over-all showing.

From an observer's vantage point, it seems clear beyond dispute that rate increases will help the situation more than anything else. So far there has not been concerted action looking toward the goal of higher rates. Some companies have been surprisingly indifferent to whether rates are raised or not. At least they have not lent themselves to a vigorous campaign for getting rate increases. There seems to be no unanimity of opinion about whether a strong drive for rate advances should be carried on. There are too many company officials who are not disposed to go into action on the question of rates.

Large court verdicts, high replacement costs, the ravaging effects of inflation are factors about which the companies can do virtually nothing. On the other hand, they can certainly organize themselves to obtain higher rates, not for the sake of simply getting the money, but because all of statistical material that has been assembled demonstrates clearly that the fire and casualty business is far behind the procession in charging a sufficient amount of money for the product that it sells. We do not pretend to be capable of making infallible predictions, but we are convinced that the alarmingly high loss ratios which the companies have been sustaining during the past two years can be brought under control more definitely and certainly by rate increases than by anything else.

An additional improvement will come through the adoption of changed and more penetrating underwriting than some companies have been doing. After all, insurance companies are in the business of underwriting risks assumed by them in such a way as to produce a profit. The money that comes to them and is converted into an investment portfolio is another matter entirely. First and foremost, a company is expected to underwrite its business in such a way as to produce a profit on it, or at the very worst, to break even on its underwriting.

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Everyone knows that this has not been the experience of most companies during the past two years. All of the discussions we have had with the company officials about underwriting make it plain that not enough changes in the underwriting procedure have been introduced. Underwriting is too mechanical with most companies. It is not sufficiently individualized. There are too many all-embracing rules. Underwriting is done, for example, in one section of the country very much as it is in another, although the actual conditions are quite dissimilar. Map clerks and examiners are passing upon business by rote more than they should. They are not considering each case by itself. They are governed too much by the general underwriting policy which the company has pursued, and from which they are rather afraid to depart. They have been made company employes first and underwriters second. Although the loss experience has been progressively worse, they are for the most part using the same factors in passing upon lines that they did a number of years ago. The fault is not theirs. They are simply doing what their superiors expect them to. The changes in underwriting practices must come from the officers of a company, and cannot be initiated by the underwriters themselves.

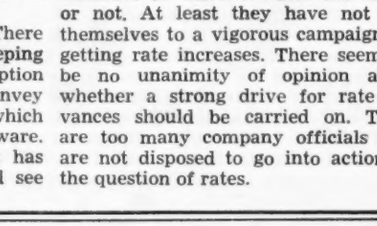
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Even now, entirely too many accommodation lines are being written. Companies continue to show too much fear of offending a good agent by turning him down or reducing the line offered. These are critical, disastrous times for companies, and they should handle their business from an underwriting standpoint, not as they did 10 years ago, but as conditions not only warrant but compel them to do. It is only when some such attitude as this is adopted that an improvement in underwriting can be made It is one thing to bemoan the ever mounting loss ratio, and quite another to develop a strong, well considered underwriting policy to check it.

In considering the possible results for 1958, we believe there is justification for some optimism. We know that many companies have been alert enough to change many of their operating methods. They have learned the hard way during 1956 and 1957, and they are not going to go on through 1958 doing many of the same things that cost them so dearly during the past two years. As with other corporations, they are in business to make money. They are entitled to charge enough for what they are selling, and then it should be expected of them that they can underwrite their business in such a way as to make a profit on it.

It is, of course, too much to believe that all lines will ever become profitable; that the experience will not vary from year to year, or that certain coverages may not be liberalized and others restricted. But these are the things that occur normally with any business. There are many companies which have been singed or burned, or in some cases nearly destroyed. They have learned so much from the disasters which have come to them that they may be expected to perform in quite a different manner in the year ahead.

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Mosher Named V-P, Three Others Are Promoted By Boston

Boston group has elected Walter H. Mosher vice-president, and advanced Richard T. Davidson to investment vice-president, George S. Zacharkow to secretary, and John D. Holbrook to assistant secretary.

Mr. Mosher joined the group in 1926. Named an assistant secretary in 1947, he was advanced to secretary in 1955. Mr. Davidson has been with the companies since 1942, when he became investment assistant to the president. He was advanced to assistant secretary in 1949, and to financial secretary in 1953.

Mr. Zacharkow joined the group as head of the loss department in New York. He most recently has been marine and fire loss manager at the home office. Mr. Holbrook has been with the companies since 1949, when he was appointed casualty claims manager. He formerly was with Liberty Mutual.

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Kerr To V-P Post Of Recording & Statistical

Gilbert L. Kerr, who is retiring as vice-president of America Fore at the end of the month, has joined Recording & Statistical Corp. as vice-president.

Mr. Kerr began his career in 1913 as claim investigator with Casualty of America and later joined Commercial Casualty as claims manager, subsequently becoming assistant manager in New York for that company. In 1921 he was chief adjuster in New Jersey for Fireman's Fund, in 1928 he was with Fire Association as secretary in charge of the automobile department, and in 1931 joined Great American's automobile department as special agent. He began with America Fore group in 1932 as superintendent of Fidelity & Casualty and was named superintendent of the casualty department in 1936, later becoming secretary of the company and the group. In 1948 he became vice-president of America Fore group. Mr. Kerr is chairman of National Automobile Underwriters Assn.

Underwriter Groups Of Europe Hold Fine Congress In Athens

By L. TYTENS

The full annual meeting of delegates of the national underwriters' unions of countries adhering to the Comite European d'Assurances took place at Athens in November. The associations of Greek underwriting offices acted as hosts. Mr. Asser of Holland, the president, was assisted by Mr. Artom of Italy and Per Hanson of Norway, vice-presidents. High Greek government officials were present at the opening ceremony.

Insurer associations of 16 countries attended. Two countries, Luxemburg and Turkey, were not represented.

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The meeting examined several insurance matters which will come before European inter-governmental organizations, or before the European Organization for Economic Cooperation or the Council of Europe. International Chamber of Commerce recently cautioned against proliferation of official international bodies which deal from different angles with the same matters.

Particular attention was given to problems that may result, from operation of the European Economic Union and the European Community for Atomic Energy (Euratom).

Progress achieved since last year in the field of organizing insurance facilities related to the risks involved in the pacific use of atomic energy and the discussions that have taken place again have stressed the fact that the European insurance business will live up to the limits of its technical capacity. This readiness is corroborated by the creation in European countries of national pools to cover this risk, either direct or by way of reinsurance.

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In accordance with normal practice, progress of different working committees studying national or international problems were brought to the attention of the congress in Athens. Among these special items were motor car insurance, experience on which is bad, and questions related to productivity.

At the close of the gathering in Athens, thanks were voted for the hospitality offered by the Greek committees. The 1958 congress will be held in Brussels.

R. J. Porter, president of the nuclear commission of International Union of Marine Insurance, recently said, "Let us cover the risk—no pools, no fuss, just cover it." One wonders whether the creation of these national pools will be a restriction on the size of cover available rather than an expansion.

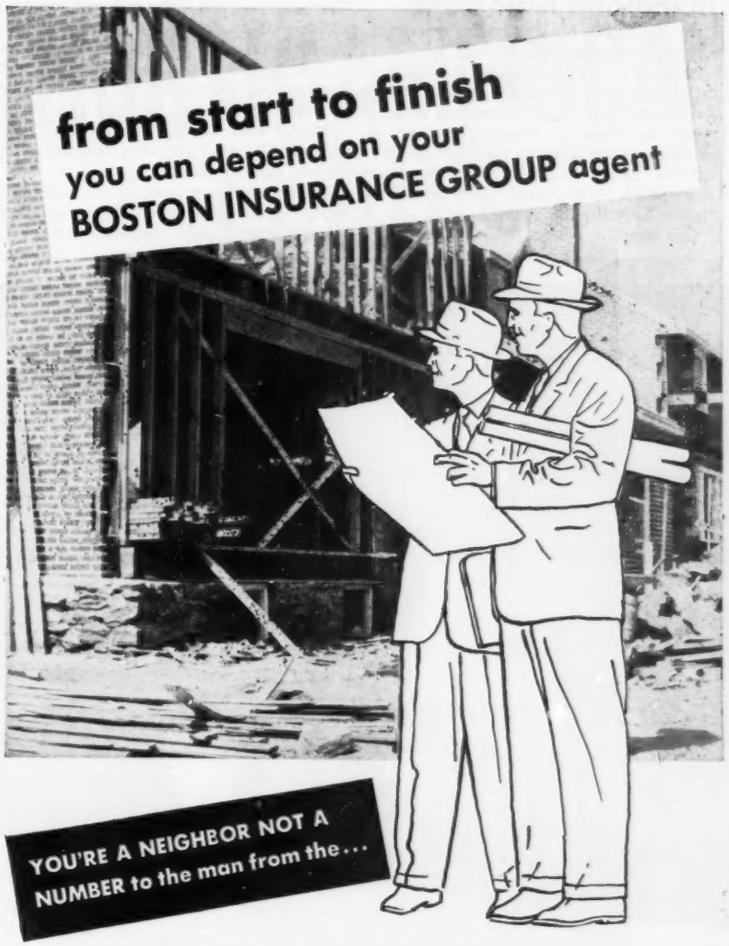
Richfield Oil Moves On Plan To Offer Dealers Group Cover

Richfield Oil is compiling insurance experience data on which to base the group insurance program it contemplates establishing for its dealers, their employes and dependents. Various fire and casualty coverages, collision on customers cars, A&S, and life would be included.

In a letter sent to its dealers nationwide, asking they answer a three-page questionaire so "we may formulate the best all-around plan," W. G. King Jr., vice-president of Richfield at Los Angeles, said the cost of the program would be paid monthly and would be the lowest possible for adequate coverage.

According to the questionaire the plan would include a "package" of casualty coverages, non-auto BI and PDL, customer car collision, robbery, burglary and theft, employes fidelity bonds, products liability, and hoist, among them. Fire coverage on equipment, tools, above ground petroleum stocks, and buildings would be available on an optional basis. Auto coverage on vehicles used in business would also be available. Depending upon the size of the dealership and limits selected, the monthly cost would run upward from a minimum premium of $9. BI and PDL limits would be 50/300, customer car collision $5,000, and employes fidelity 200/1000.

The plan would also provide $3,000 group life, accidental death & dismemberment on dealers and employes, and would include $50 deductible comprehensive A&S with a maximum of $5,000 for any one illness occurring within a three-year period. The estimated average monthly cost per individual is $5, with an additional $5 for each dependent.



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"Liberal" Ruling Given In Indiana Auto Case

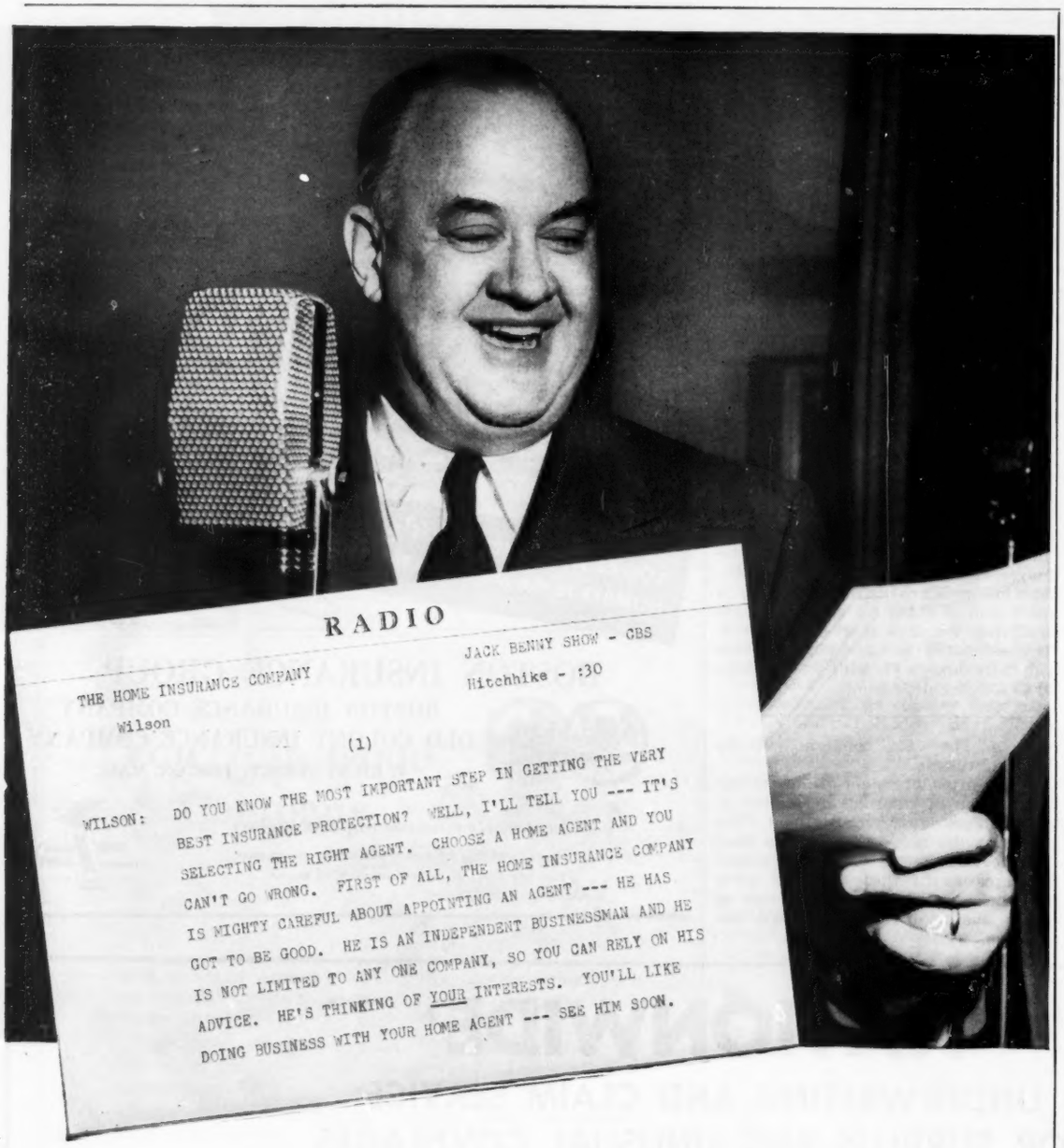
A federal court ruling recently aligned Indiana with Illinois and Wisconsin as a "liberal" state in interpretation of the omnibus clause in an auto liability policy. The ruling handed down by Federal Judge William E. Steckler made it clear that initial permission to use a car, either expressed or implied, is the governing factor, no matter how the car is used.

The specific case ruled on is that of Arnold vs State Farm Mutual. Robert Arnold was killed when struck by a truck driven by a farm hand who had borrowed it from his employer. The farm hand had permission to use the truck between the farms of his employer, but on the day of the accident he drove 15 miles beyond the farms, striking and killing Mr. Arnold while 11 miles beyond the area implied in the owner's permission.

The insurance company sought to deny liability because the truck was used considerably beyond the scope implied by permission. However, Judge Steckler ruled that the owner of the car is protected as long as initial permission is given. Horace Arnold, plaintiff and father of the deceased was awarded $11,786 damages.

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East Huntingdon Casualty of Scottdale, Pa., was voluntarily dissolved, effective Nov. 22. A stock company, licensed in Pennsylvania only, the insurer was formed in 1953 to write workmen's compensation and general liability.



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Morris S. Fogel Heads Kansas City Agent Assn.

Morris S. Fogel was elected president of the Kansas City Agents Assn. at the annual meeting, succeeding H. A. Sloan. Also elected for 1958


John M. Nuchols


M. S. Fogel

were: Kenneth Duback, vice-president; Elton M. Nichols, treasurer; George Kerdolff Jr. and Eugene M. Strauss, executive committeemen. Morton M. Jones and Walter Eckhoff were elected to serve unexpired terms as committeemen. Paul M. Jones and Robert Koenigsdorf had been elected committeemen previously. Executive Secretary John M. Nuchols was reappointed for his 16th term.

The new administration is expected to work for revision of the Missouri insurance laws and passage of an agents and brokers license law. It will also seek relief for agents unable to sell package dwelling coverages.

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Two Pacific Coast General Agents Merge

Announcement is made of the signing of agreements which will result in the merging of the Pacific coast general agencies of Landis, Pelletier & Parrish and Seeley & Co. Details are now being completed for the new consolidated organization which is expected to be in operation very shortly. All principals of both firms will assume important roles in the combined operation.

The merger will bring together two old and prominent managing general agencies doing a multiple line business aggregating in excess of $9 million in annual premiums.

—

Homer Gwinn Promotes 3

Homer Gwinn & Co. agency of Chicago has named three men vice-presidents and directors: James J. Finn, Richard A. Pfordresher and Warren J. Brockmeir. In that order they are in charge of fire underwriting, inland marine and engineering.

Mr. Finn began in insurance with Aetna Life group in 1946, subsequently becoming superintendent of the western brokerage department. He went with Homer Gwinn in 1955.

Mr. Pfordresher, son of Ray J. Pfordresher, who is president of the agency, also began with Aetna, after three years going with the Gwinn agency in 1953. He has attended the home office schools of Aetna and U. S. F. & G.

Mr. Brockmeir started with Cook County Inspection Bureau in 1948. A CPCU, he received his B. S. degree in fire protection engineering from Illinois Tech.

—

Corns, Youngberg-Carlson Merge

Corns Insurance agency of Evanston, Ill., will on Jan. 6 merge with and become the North Shore branch of Youngberg-Carlson agency of Chicago, with offices at 1012 Davis street, Evanston. Mr. Corns will become a vice-president of Youngberg-Carlson and manager of the new office.

Name Matchett V-P Of America Fore

America Fore has appointed William E. Matchett, manager for Canada, vice-president of the group in charge of the Pacific coast department. He will make his headquarters at San Francisco.



Wm. E. Matchett

He has been with the group for 28 years. Appointed manager for Canada in 1956, he previously was secretary of the fire companies of America Fore at Chicago.

He entered insurance with Hartford Fire at Chicago in 1928, and joined America Fore the following year when he became a special agent of Continental in Indiana and Wisconsin. He was named special agent of the inland marine and general cover departments at Chicago in 1941, state agent in Wisconsin in 1942, and manager of the brokerage department at Chicago in 1948. He was made assistant secretary of the fire companies of the group in 1951 and secretary in 1953.

—

Spink, Fund Manager At St. Louis, To Retire

Earl A. Spink, manager of the Missouri office of Fireman's Fund group at St. Louis, is retiring Dec. 31. He will be succeeded by William Casey, who is now assistant manager.

Mr. Spink joined the western department of Fireman's Fund in 1909 as an office boy. After training in the underwriting department at Chicago, he went to the Ohio field, subsequently going to St. Louis as state agent. When the branch office was established there, he became manager.

Mr. and Mrs. Spink will move to Florida to establish a new home.

Mr. Casey started with National Surety in 1945, and was manager at St. Louis when the company was purchased by Fireman's Fund.

—

Thorne To Pacific Post Of Fidelity & Casualty

John W. Thorne, who has been manager of the fidelity and surety department of Continental Casualty at San Francisco, is resigning to become superintendent of bonding of the Pacific department of Fidelity & Casualty. He succeeds Sheridan J. McCarthy, who has been given broader responsibilities in the Pacific department of America Fore group.



John W. Thorne

Prior to moving to San Francisco, Mr. Thorne had been at Chicago with Schiff, Terhune & Co., brokerage company, and National Surety, as well as Continental Casualty which he joined in 1953.

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Fidelity & Casualty has elected Joseph A. Martino, president of National Lead, and Hoyt Ammidon, president-elect of U. S. Trust Co. of New York, directors of the company.

Way, Hadley Named By American Group

American has elected Pennington H. Way Jr. vice-president, and Judson B. Hadley assistant vice-president.

Mr. Way assumes direction of the home office marine underwriting department. He entered insurance in 1937 and joined American in 1948. Named assistant manager at Philadelphia, he transferred to the home office, was elected an assistant secretary in 1952, secretary in 1954, and assistant vice-president in 1955.

Mr. Hadley's promotion broadens his administrative responsibilities in the home office claim and loss department, where he has been staff superintendent. He has been in insurance since 1938, when he joined Central Surety as a claim adjuster in Kansas City. He went to American Automobile in 1941 in the same post there. Subsequently transferred to the head office claim department in St. Louis as field superintendent, he was advanced to staff superintendent earlier this year.

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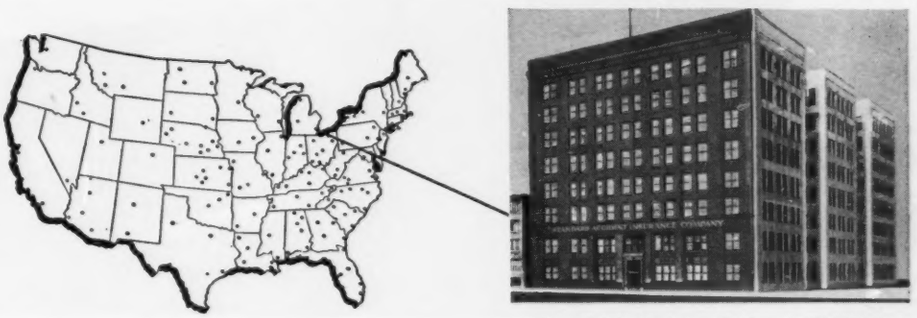
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Cheveley Succeeds Levien As General Manager Of Atlas

Charles Cheveley, deputy general manager of Atlas, has been named to succeed J. W. J. Levien as general manager at year end. Mr. Levien will continue as a director.

Mr. Cheveley joined Atlas in 1923 and was first assigned to Bombay. He returned to London in 1925 and served in the accident department at the head office, eventually becoming accident superintendent. He transferred to South Africa in 1938 and became manager for South Africa, based in Capetown, in 1940. In 1945, he became secretary of the company at the head office. He was appointed manager and secretary in 1946, assistant general manager and secretary in 1951 and deputy general manager in 1956.

Mr. Levien joined Atlas in 1910 and has spent his entire business life with the company. He went to the Calcutta branch in 1912 and became eastern secretary in 1926. After 23 years in the East, he returned to the head office as assistant secretary, became secretary in 1938, assistant general manager and secretary in 1944 and general manager in 1946.

Mr. Levien has been chairman of London Salvage Corp., Fire Protection Assn. and British Insurance Assn. 1953-1955.

—

Maurice B. Hodges has bought the Otto B. Haab agency of Ann Arbor.

Denies Rehearing In New Orleans Exchange Anti-Trust Action

The U. S. Supreme Court has denied a rehearing in the New Orleans Insurance Exchange anti-trust suit. The district court at New Orleans had held the exchange monopolizes the business in its area.

The application for a rehearing was joined by the states of Texas and Louisiana, which filed the supporting briefs.

—

AFIA Makes Changes In S. A., Expands

American Foreign Insurance Associatinn has appointed Joseph B. Weimert, supervisor in Chile, manager in Venezuela. He is succeeded in Chile by Everard H. Lee, who has been resident inspector in the British West Indies. Mr. Lee is succeeded in that post by David A. Walsh, former manager in Pakistan.

Bowdre P. Mays Jr., former AFIA manager in Hong Kong, has been transferred to Bogota, Columbia, as manager.

AFIA also has opened a new branch office in Manizales, Colombia, and named Inspector Hernan Toro Rivas as manager.

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Liberty Mutual To Build $7 Million Boston Office

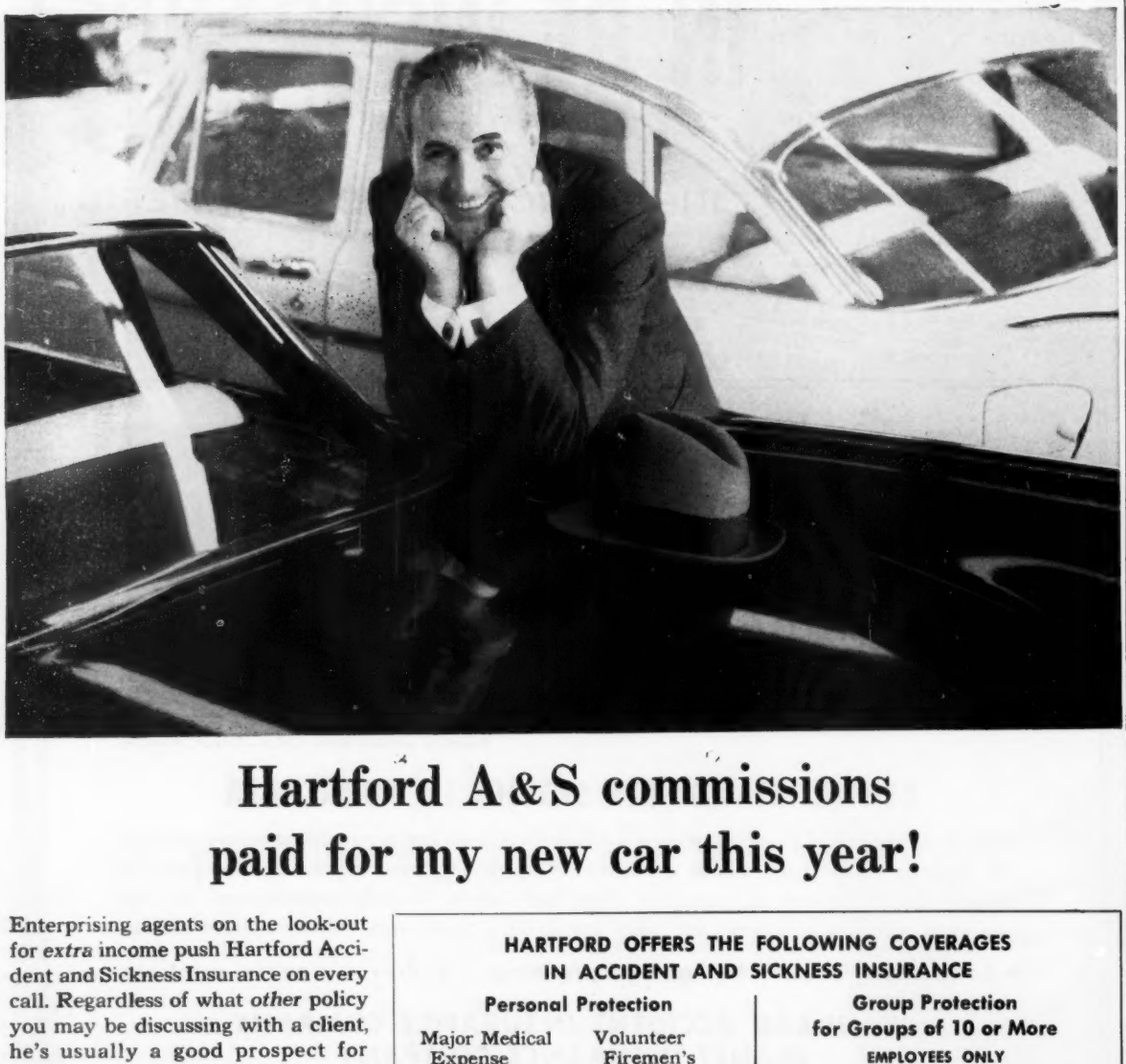
Liberty Mutual will build a new $7 million 10-story office building near Park square in Boston, President Bryan E. Smith has revealed. Construction will begin next spring and it is expected will be completed early in 1960, he said.

Mr. Smith said that the growth of the company, causing it to rent more office space, resulted in a decision that it would be more economical to erect its own building. The new building will be built on the parking lot adjacent to the company's home office. In addition to the home office, Liberty Mutual now occupies space in two other buildings in Boston.

—

Marquette Associations Elect

Donald Mitchell has been named president of Marquette City (Mich.) Insurance Agents Assn. and Edgar J. Akel of Negaunee has been selected to head the Marquette county association as both city and county organizations elected officers. The city agents also elected Howard Larson, vice-president, and A. J. Chubb, secretary-treasurer. The county association elected Creighton Sundblad, Ishpeming, vice-president, and B. L. York, Marquette, secretary-treasurer.



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Here's Text Of Supreme Court Opinion Adding Teeth To Process-Service Laws

Here is the text of the opinion in which the U. S. Supreme Court conferred airtight status on state unauthorized insurers service of process laws. As reported in last week's issue, the high court ruled that the mere mailing of a renewal premium notice to a California policyholder who had bought a mail-order accident policy from an Arizona insurer, later reinsured by a Texas company, was enough to subject the latter to the service of process law, even though neither company had ever done business in California. Chief Justice Warren did not participate in the case, perhaps because it originated when he was governor of California. He did not state a reason. Justice Black wrote the opinion.

Petitioner, Lulu B. McGee, recovered a judgment in a California state court against respondent, International Life Ins. Co., on a contract of insurance. Respondent was not served with process in California but by registered mail at its principal place of business in Texas. The California court based its jurisdiction on a state statute which subjects foreign corporations to suit in California on insurance contracts with residents of that state even though such corporations cannot be served with process within its borders.

Unable to collect the judgment in California petitioner went to Texas where she filed suit on the judgment in a Texas court. But the Texas courts refused to enforce her judgment holding it was void under the fourteenth amendment because service of process outside California could not give the courts of that state jurisdiction over respondent. Since the case raised important questions, not only to California but to other states which have similar laws, we granted certiorari. 352 U. S. 924. It is not controverted that if the California court properly exercised jurisdiction over respondent the Texas courts erred in refusing to give its judgment full faith and credit. 28 U. S. C. Sec. 1738.

The material facts are relatively simple. In 1944, Lowell Franklin, a resident of California, purchased a life insurance policy from the Empire Mutual Ins. Co., an Arizona corporation. In 1948 the respondent agreed with Empire Mutual to assume its insurance obligations. Respondent then mailed a reinsurance certificate to Franklin in California offering to insure him in accordance with the terms of the policy he held with Empire Mutual. He accepted this offer and from that time until his death in 1950 paid premiums by mail from his California home to respondent's Texas office. Petitioner, Franklin's mother, was the beneficiary under the policy. She sent proofs of his death to the respondent but it refused to pay claiming that he had committed suicide. It appears that neither Empire Mutual nor respondent has ever had any offices or agents in California. And so far as the record before us shows, respondent has never solicited or done any insurance business in California apart from the policy involved here.

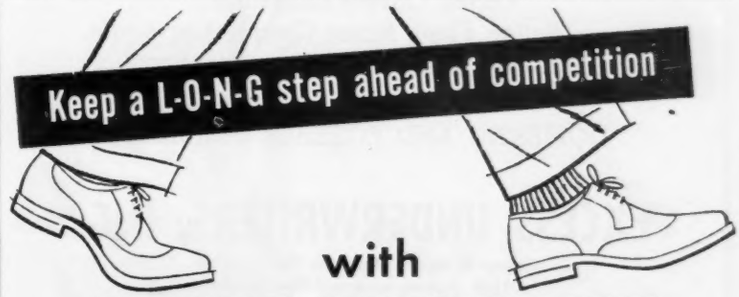
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Since *Pennoyer vs Neff*, 95 U. S. 714, this court has held that the due process clause of the fourteenth amendment places some limit on the power of state courts to enter binding judgments against persons not served with process within their boundaries. But just where this line of limitation falls has been the subject of prolific controversy, particularly with respect to foreign corporations. In a continuing process of evolution this court accepted and then abandoned "consent," "doing business," and "presence" as the standard for measuring the extent of state judicial power over such corporations. See Henderson, *The Position of Foreign Corporations in American Constitutional Law, C. V.* More recently in *International Shoe Co. vs Washington*, 326 U. S. 310, the court decided that "due process requires only that in order to subject a defendant to a judgment *in personam*, if he be not present within the territory of the forum, he have certain minimum contacts with it such that the maintenance of the suit does not offend 'traditional notions of fair play and substantial justice.' " *Id.*, at 316.

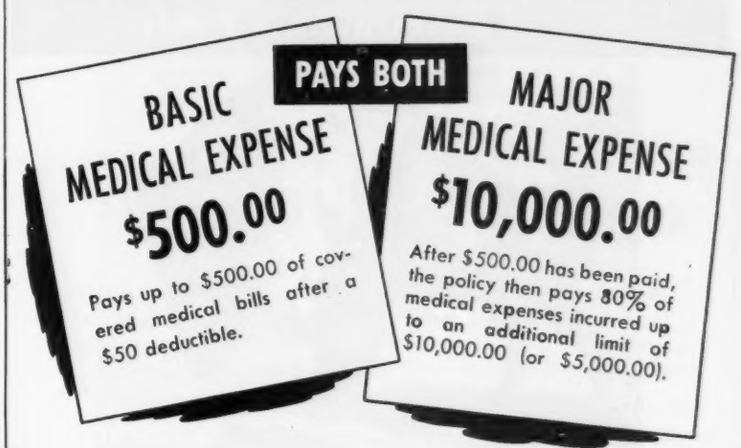
Looking back over this long history of litigation a trend is clearly discernible toward expanding the permissible scope of state jurisdiction over foreign corporations and other nonresidents. In part this is attributable to the fundamental transformation of our national economy over the years.

Today many commercial transactions touch two or more states and may involve parties separated by the full continent. With this increasing nationalization of commerce has come a great increase in the amount of business conducted by mail across state lines. At the same time modern transportation and communication have made it much less burdensome for a party sued to defend himself in a state where he engages in economic activity.

Turning to this case we think it apparent that the due process clause did not preclude the California court from entering a judgment binding on



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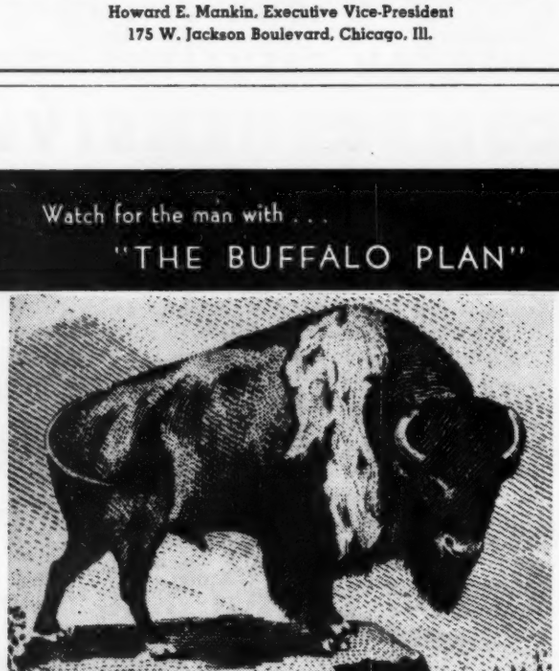
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respondent. It is sufficient for purposes of due process that the suit was based on a contract which had substantial connection with that state. Cf. *Hess vs Pawloski*, 274 U. S. 352; *Henry L. Doherty & Co. vs Goodman*, 294 U. S. 623; *Pennoyer vs Neff*, 95 U. S. 714, 735. The contract was delivered in California, the premiums were mailed from there and the insured was a resident of that state when he died.

It cannot be denied that California has a manifest interest in providing effective means of redress for its residents when their insurers refuse to pay claims. These residents would be at a severe disadvantage if they were forced to follow the insurance company to a distant state in order to hold it legally accountable. When claims were small or moderate individual claimants frequently could not afford the cost of bringing an action in a foreign forum—thus in effect making the company judgment-proof. Often the crucial witnesses—as here on the company's defense of suicide—will be found in the insured's locality.

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Of course, there may be inconvenience to the insurer if it is held amenable to suit in California where it had this contract but certainly nothing which amounts to a denial of due process. Cf. *Travelers Health Assn. vs Virginia ex rel. State Corporation Commission*, 339 U. S. 643. There is no contention that respondent did not have adequate notice of the suit or sufficient time to prepare its defenses and appear.

The California statute became law in 1949, after respondent had entered into the agreement with Franklin to assume Empire Mutual's obligation to him. Respondent contends that application of the statute to this existing contract improperly impairs the obligation of the contract.

We believe that contention is devoid of merit. The statute was remedial, in the purest sense of that term, and neither enlarged nor impaired respondent's substantive rights and obligations under the contract. It did nothing more than to provide petitioner with a California forum to enforce whatever substantive rights she might have against respondent.

At the same time respondent was given a reasonable time to appear and defend on the merits after being notified of the suit. Under such circumstances it had no vested right not to be sued in California. Cf. *Bernheimer vs Converse*, 206 U. S. 516; *National Surety Co. vs Architectural Decorating Co.*, 226 U. S. 276; *Funkhouser vs J. B. Preston Co., Inc.*, 290 U. S. 163.

The judgment is reversed and the cause is remanded to the court of civil appeals of the state of Texas, first supreme judicial district, for further proceedings not inconsistent with this opinion. It is so ordered.

The Chief Justice took no part in the consideration or decision of this case.

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Postpone Sentencing Cooney and Dearden

The sentencing of John R. Cooney, former president of Loyalty group, and John R. Dearden, publisher of the *American Underwriter*, Philadelphia, on charges of embezzlement from the insurance group, scheduled for Dec. 18, has been postponed by the Essex county (Newark) court to Jan. 22. The two pleaded nolo contendere to the charges.

—

Passaic County (N.J.) Assn. of Insurance Agents will hear William Doyle, director of the New Jersey road aid program at the bi-monthly dinner meeting Jan. 9, in Clifton. Robert W. Coburn, Paterson, is in charge of reservations.

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NAIA Reports On Collision Refunds

WASHINGTON—Motorists misclassified and overcharged for collision coverage in connection with financed automobile purchases have so far received nearly $6 million in refunds nationwide, according to Morton V. V. White of Allentown, Pa., chairman of the special committee on financed automobile insurance of National Assn. of Insurance Agents.

A summary of reports made by state insurance departments to NAIA, which conducted a study of auto premium overcharges at the request of the Senate subcommittee on automobile marketing, shows that on a state by state basis total refunds range from $1,178,000 in New York to slightly more than $2,000 in Nevada.

•

The Senate subcommittee under Monroney of Oklahoma undertook an investigation of overcharging due to misclassification following a hearing on automobile marketing practices last March. Overcharges had come to light in some states months prior to the hearing, however. The Arkansas insurance department, for instance, started surveying the problem as early as September, 1955.

The insurance departments of 45 states and District of Columbia furnished NAIA with refund statistics and the results of their activities in the matter of misclassification and overcharges. It was apparent from the various state reports that practically all of the overcharging occurred where insurance policies were issued through auto dealers and/or finance companies.

•

According to Mr. White, insurance departments publicized the matter of overcharging and caused insurers involved to inform every one of their policyholders that they might be due a refund. In some instances, insurers circularized policyholders suggesting an "adjustment" in the rate might be in order. They did not refer to a refund, the report said, and some policyholders, fearing that the "adjustment" might mean a rate increase, did not furnish information to the companies or apply for refunds. Because of this, the Massachusetts department and others undertook to query policyholders directly.

Only six companies were mainly involved in overcharging on financed automobile insurance premiums, the report said. Mr. White said the overcharging situation was confined to a relatively short period, and that the practice has ceased and is no longer a problem.

Refunds in most states which reported to NAIA have run below the quarter million dollar mark. However, more than $1 million has been paid out in New Jersey as well as in New York, $690,000 in Pennsylvania, and $511,000 in Connecticut. Refunds are still being made. In general, the total figures so far received from state insurance departments are for refunds paid during a seven-month period, March-September 1957.

Refunds made prior to Nov. 18, the date NAIA submitted the results of its study to the Senate subcommittee, were: Alabama $108,913; Arizona $8,323; Arkansas $72,017; California $47,209; Colorado $11,009; Connecticut $511,107; Delaware (no figure available); District of Columbia $42,872; Florida $186,999; Georgia $91,674; Idaho (no figure available); Illinois $159,220.

Iowa $16,000; Kansas $50,983; Kentucky $211,811, Louisiana (no figure available); Maine $90,000; Maryland $5,397; Massachusetts $173,000; Michigan $102,000; Minnesota $26,515; Mississippi (no figure available); Missouri $174,000; Montana (continuing investigation); Nebraska $9,796; Nevada $2,000; New Hampshire (no misclassifications reported); New Jersey $1,003,524; New Mexico $20,000; New York $1,178,126; North Carolina $101,853; Ohio $181,000; Oklahoma $56,140; Oregon (no figures available), and Pennsylvania $690,884.

Results were either inconclusive or not available from Vermont, Rhode Island, Washington, Texas, South Carolina, North and South Dakota, Wyoming, Virginia and West Virginia, Tennessee, Indiana, and Utah.

Standard Accident Advances Roeben

Standard Accident and Planet have appointed Arthur R. Roeben as executive secretary of the companies.

Mr. Roeben has been connected with the insurance business since 1914 when he started with National Fire of Hartford, rising from clerical and underwriting duties to superintendent of the inland marine and automobile department and later agency superintendent. He joined Standard Accident's fire and marine affiliate, Planet, in 1945 as superintendent of the inland marine department and consultant on automobile underwriting. In 1946, he was made manager of the fire and marine underwriting department and served in that capacity until his present appointment.



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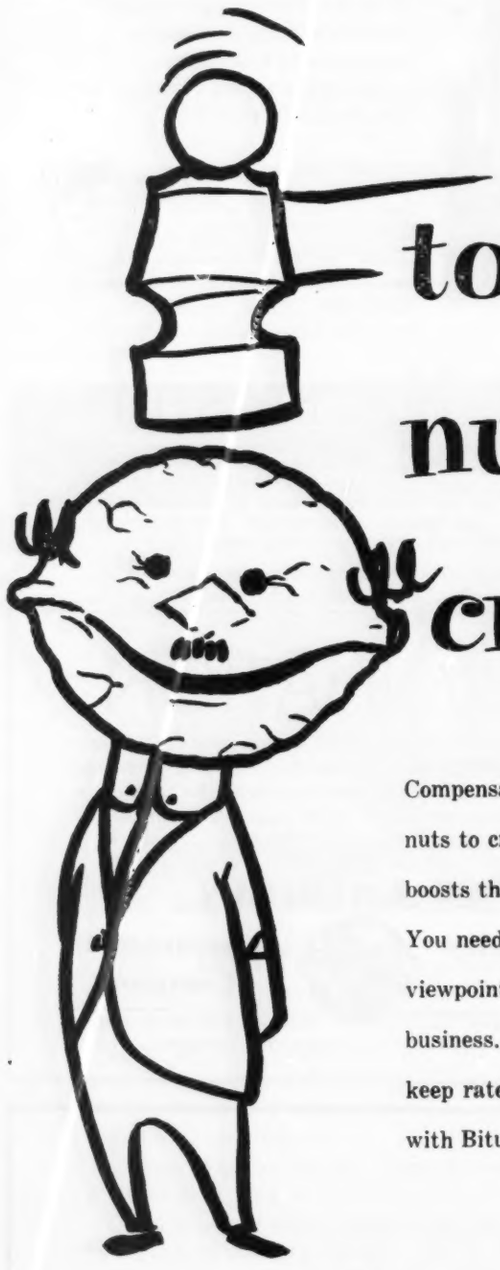
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Reduce Commissions On IM Habitational Lines In New York

All major insurers of inland marine habitational lines have reduced brokerage commissions five points in the New York metropolitan area, from 20 to 15%. Lines include personal property floater, jewelry and furs, fine arts, etc. The commission went up five points about two years ago, but experience on the business steadily has grown worse ever since, and became so bad in New York City that the market was seriously affected.

Experience on these inland marine lines country over is reported still to be bad and few if any insurers expect to get out of the red this year. Recent rate increases will help, but only slowly.

—

Wallace Is Secretary Of Commercial Union

Commercial Union-Ocean group has appointed John L. Wallace as secretary. Recently named manager of the New Jersey service office, he formerly was in the eastern field. He has been with the group more than 20 years.

As secretary, he will move to the head office to assume executive duties in the production department under the supervision of Assistant U. S. Manager T. B. Lee.

—

Elect Johnson To Head Florida Surety Assn.

O. Watson Johnson Jr., New Amsterdam Casualty, was elected president of Casualty & Surety Assn. of Florida at the December meeting in Jacksonville.

Other new officers are: Frank L. Garriott, Maryland Casualty, 1st vice-president; Charles J. Kelly, Hartford Accident, 2nd vice-president; Charles M. Hatcher, New Amsterdam Casualty, secretary, and Earl P. Schoenberger Jr., Fidelity & Casualty, treasurer. In addition, the following directors were elected: Eugene J. Gallagher, Travelers; Martin C. Shatzer, U.S.F.&G.; James E. Rhodes, American Surety; and Hardy L. Payor, Aetna group.

—

Wisconsin CPCUs Elect

J. Leonard Henderson, Badger State Mutual Casualty, has been elected president of the Wisconsin CPCU chapter, succeeding Richard Evans, at its meeting in Milwaukee. Others named are Henry H. Bush Jr., Madison, vice-president, and Thomas M. Irvine, American, secretary-treasurer.

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Tressler Agency Head Of Hawkeye-Security

J. S. Tressler has been promoted to assistant vice-president in charge of the newly-created production and agency department of Hawkeye-Security.



J. S. Tressler

Since joining the company in 1946, he has held supervisory and administrative positions in accounting, advertising and sales promotion, and for the past four years has served as production agency manager in the production-underwriting departments.

—

Elect Fosshage President

New officers elected by Green County Assn. of Insurance Agents at Monroe, Wis., are Sidney Fosshage, Brodhead, president, Arnold Albright, Monroe, vice-president, and Fred Lienha New Glarus, secretary-treasurer.



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Standard Accident Ups Cleveland Office Status

Standard Accident and Planet have expanded and elevated the Cleveland service office to full branch status to provide local auditing, engineering, claim, underwriting and production facilities for agents in the northern Ohio area.

Previously the Cleveland office, which opened in 1949, operated under the jurisdiction of the Detroit branch. Edward G. Martin continues as manager at Cleveland.

—

Dismiss Two Of Three Actions Filed To Test N. C. Pension Fund Law

Superior Judge Bickett of Raleigh, upholding a demurrer filed by attorneys for Commissioner Gold of North Carolina, and trustees of the state's new firemen's pension fund, has dismissed two of the three lawsuits filed by insurers to test the constitutionality of th law creating the pension fund. The law levies a 1% premium tax on companies writing fire business in North Carolina. The tax helps support the fund.

American Equitable, Great American, Hartford Fire, Continental, and Virginia F.&M. were plaintiffs in one suit, and Hardware Mutual of the Carolinas, plaintiff in the other.

The demurrer contended that the six companies bringing action were not parties since they had not shown they had paid or had been assessed any tax liability at the time they filed suit, and that there is another avenue open for adjudication of the issue.

The insurers indicated they will appeal, but it seems more likely the question of the constitutionality of the law will be decided by the result of the third suit—brought by William S. Bizzell, manager of North Carolina Fire Insurance Rating Bureau—or on appeal from Commissioner Gold.

Acting as an individual, Mr. Bizzell paid a 50-cent tax on his fire premium under protest and then, contending the pension fund law was invalid, brought action to collect a refund.

—

Zangmaster Named Sales Head Of Motorists Mutual

Ralph E. Zangmaster, assistant sales manager, has been appointed sales manager of Motorists Mutual, succeeding Byron W. Snyder, vice-president sales division, who is retiring.

Mr. Zangmaster joined the company in 1950 as an agent, becoming district sales manager at Columbus, O., in 1951 and assistant sales manager in 1955. Mr. Snyder joined the company in 1933, becoming sales manager in 1938 and sales vice-president in 1949.

—

Geo. F. Brown Names Two

Geo. F. Brown & Sons agency of Chicago has elected Louis W. Biegler to the new post of executive vice-president, and Baird Brown was named vice-president and secretary.

Mr. Biegler is also executive vice-president of Interstate Fire & Casualty and its subsidiary, Chicago Ins. Co., both of which are managed by Brown & Sons. In addition, he is president of Central Treaty Brokers. Mr. Biegler entered insurance in 1935 as an engineer, leaving his post as branch manager of Atlantic Mutual companies in 1948 to become a vice-president of Geo. F. Brown & Sons. He was named vice-president of Interstate Fire in 1952 and executive vice-president in 1956.

Mr. Brown joined the Brown organization in 1948 and was named secretary in 1952. He has been responsible for routine administration since that time.



Our Fieldmen Help Agents Sell Insurance to Value

Agent Thomas P. Fullam (left) of Manchester, N.H., enjoys the help of our State Agent, Bob Schmid, on a valuation survey. The result? Insurance on the house doubled, on household furniture increased five-fold, on the insured's summer place boosted from $5000 to $6000, and a new $1000 policy written on contents of the summer home. Formerly the agency had had but a small part of it. Want an assist in *your* work? Send for our "Replacement Cost Guide 12G".

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EDITORIAL COMMENT

Action On Auto Commissions

America Fore's resolute action in reducing New York automobile commissions gives the property insurance business—agents and companies alike—cause for optimism. It is something that had to be done. It is wholesome to have the deed done forthrightly by a big company acting alone. We have badly needed that kind of leadership.

Since the time that concert of action was banned, there has been a vain search for a substitute for the anonymity of the old committee procedure to accomplish ends that excite the field. Indeed there have been advocates of delivering up certain types of authority to state insurance departments so as to relieve the insurance company of blame and possible retaliation for taking horrid steps. It is no secret for instance that in New York many were hoping that Superintendent Holz would assume the role of commission hatchet man.

What America Fore has done is cathartic—in the Greek sense. It is good for the corporate soul of the insurance business. It is an assumption of leadership that we think agents were yearning for as well as companies. America Fore is willing to stand up and be counted in a temporarily unpopular and provocative cause.

Agents who know the score understand that this gigantic mass of virtually coerced business that auto insurance has come to comprise can't forever sustain a sales cost that was derived from an entirely different complex of circumstances. They don't want to perish to preserve a formula. When and if the rate of commission is a true measure of its worth in the absolute sense, then the agency system will be within shooting distance of its rivals. Rates then can be adjusted to cover losses without the contradictory effect of inflating the apparent salesman's portion. We say "apparent" because actually such an addition to what the salesman is supposed to get simply puts him in a melancholy stern chase after the competitor who wants to bank a dollar rather than enshrine a ratio.

America Fore deserves the respect of the hard-headed, successful and forward looking agents and brokers. This action sets a pattern. It doesn't, however, presage sweeping comparable action in other fields of insurance. Auto insurance occupies a special place in the insurance picture. It has to be dealt with on its own terms just as workmen's compensation was adjusted years ago. The more unemotionally the changes can be accomplished the better for all. It is good medicine, a good tonic, for a group that occupies a commanding underwriting position to institute corrective action on its own initiative.

PERSONALS

The engagement of **Miss Alice F. Herchenroder** of Woodhaven, N. Y., to Robert H. Tierney there has been announced. Miss Herchenroder is presently secretary to Warren H. Gaffney, general manager of Surety Assn. of America. She also was secretary to the late Martin W. Lewis, general manager of the association, and to Edward M. Allen, former executive vice-president of National Surety. Miss Herchenroder and Mr. Tierney will be married in St. Thomas the Apostle church in Woodhaven Feb. 8.

Edward Devine, division manager of New England Fire Insurance Rating Assn. in Providence since 1938, will retire at year end. A veteran of more than 50 years in the business, he formerly was secretary of Insurance Assn. of Providence.

Ashby E. Bladen, vice-president of Aetna Fire group, has been elected president of New York Board of Trade. He has been chairman of the executive committee the past year.

The **Pittsburgh Insurance Telephone Directory** has just been published by the National Underwriter Co. Copies may be obtained for $1 each from the National Underwriter Co., 420 East Fourth street, Cincinnati 2, O.

DEATHS

CLINTON T. GAMWELL, president, treasurer and a founder of the Gamwell & Ingraham agency of Providence, R. I., died there. Long in the business, he was secretary of Rhode Island Assn. of Insurance Agents from 1909 to 1911.

STEPHEN A. PARK, 69, since 1949 professor of insurance in Marquette University college of business administration, died at his home in Milwaukee of a heart ailment.

MARCUS W. VARBLE, 50, manager of the insurance policy printing department in the New York office of Recording & Statistical Corp., died. He had been 18 years with Recording & Statistical.

MRS. DOROTHY MEISSEL, the wife of W. W. Meissel who is managing general agent of Virginia at Suffolk of London & Lancashire group, died.

ROBERT T. CANTWELL, local agent at Decatur, Ill., for 39 years, died after a long illness.

J. ARTHUR FLECKENSTEIN SR., 60, Milwaukee, who had been with Corroon & Reynolds for about 30 years, died at a Milwaukee hospital after a long illness. He was executive special agent in Wisconsin for American Equitable, Globe & Republic, and New York Fire. Before moving to Milwaukee in 1925, Mr. Fleckenstein was with the Wisconsin insurance department.

B. F. MOLDSTAD, 64, vice-president of the Neale-Phypers agency of Cleveland, died there after a long illness. He had been with Neale-Phypers for 38 years, and had been vice-president for 18 years. He was also manager of the agency's marine division.

BRYAN E. RAYHORN, 61, Richmond Va., agent, died at his home there. He had been with the McCue, Alsop & Elliott agency for 20 years.

NAMIA Has Handbook On Association Work

National Assn. of Mutual Insurance Agents has prepared and distributed to state and regional associations of mutual agents a handbook on association operation. It is 50 pages long and is in loose leaf form to permit changes or additions from time to time.

The book deals briefly with purposes and then devotes its attention to the practical work detail of operating a successful association. To illustrate, by page 2 the book is dealing with membership solicitation and maintenance. It not only tells how and where to get members but takes up application forms and in an appendix gives specimen forms for this and other association activities. The book covers finances, publications, conventions and meetings—one of the most important of association jobs—public relations, and management of the office.

The book was prepared by the NAMIA staff headed by Philip L. Baldwin, general manager, and William A. Stringfellow, assistant general manager.

STOCKS

By H. W. Cornelius, Bacon, Whipple & Co.
135 S. LaSalle St., Chicago, Dec. 24, 1957

	Bid	Asked
Aetna Casualty	125	128
Aetna Fire	46¼	47½
Aetna Life	183	187
Agricultural	23	24
American Equitable	25½	26½
American (N. J.)	19¾	20½
American Motorists	9	9½
American Surety	12	13
Boston	26¾	27¾
Camden Fire	24	25
Continental Casualty	71½	73
Crum & Forster com.	43½	45½
Federal	36¾	37¾
Fire Association	31	32½
Fireman's Fund	42½	43½
Firemen's (N. J.)	35	Bid
General Reinsurance	44½	46
Glens Falls	24	25
Globe & Republic	15½	16½
Great American Fire	30	31
Hartford Fire	127	130
Hanover Fire	29	30½
Home (N. Y.)	33	34
Ins. Co. of No. America	91½	93½
Maryland Casualty	28¼	29½
Mass. Bonding	25½	26½
National Fire	62	64
National Union	26¾	27¾
New Amsterdam Cas.	36¼	37¼
New Hampshire	34	36
North River	30	31
Ohio Casualty	17½	19
Phoenix Conn.	53	54½
Prov. Wash.	12¾	13½
St. Paul F. & M.	41¾	42¾
Security, Conn.	20½	21½
Springfield F. & M.	35½	36½
Standard Accident	41¾	42¾
Travelers	73	74
U.S.F.&G.	53	54½
U. S. Fire	21	22

Oppose Regulation of Unilateral Welfare Funds

(CONTINUED FROM PAGE 1)

portion of the money they receive will be used for providing benefits. They may select the methods of providing the benefits, including the choice of agents, insurers, investment advisers, actuaries and custodians.

Another opponent of the proposal was Horace E. Sheldon, director of the industrial relations department of New York Commerce & Industry Assn. The legislature considered covering unilateral funds before enacting the law two years ago, and nothing has happened since then to cause it to reverse the decision not to include them. There is no need to extend the law in the absence of any specific malpractices which could be remedied by the statute.

There are no findings of abuse sufficient to justify extension of the law to all types of funds, Mr. Sheldon said. Any notions about the need to present an appearance of even-handedness have more to do with the quest for broadened coverage than with any real concern to correct abuses. The proposal to cover programs, in addition to funds, would subject a great variety of informal benefit plans to the law and would serve no purpose. Wholesale extension of coverage would pose the danger of serious dilution of controls by increasing the magnitude of the administrative operation.

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Inclusion of unilateral plans would place a great burden on employers who would have to meet these higher expenses by adding to their administrative costs, agreed Meyer M. Goldstein, head of Pension Planning Co., New York consulting firm.

Martin E. Segal, who heads a New York firm of consultants on welfare, health and pension programs, commented on this proposal and the 16 others on the agenda. He noted that coverage of all unilateral and joint funds is consistent with employe welfare fund laws in some other states and with bills introduced in the last session of Congress by the administration and Sen. Douglas of Illinois. He did not say whether he opposed or favored the unilateral proposal, however.

A letter from United Mine Workers of America said no amendments should be made to the law until more experience is obtained.

Members of insured welfare funds have all the advantages flowing from the comprehensive state supervision of insurance companies, while employes covered by direct payment funds have none of these safeguards, according to Eldon Wallingford, associate general counsel of LIA, who spoke for ALC also. The welfare of those under self-insured plans will be served best by requiring adherence to the same standards governing those doing an insurance business. ALC and LIA do not claim that the insurance business involved should be written through insurance companies, but they do feel that whatever organization performs this insurance business should comply with New York's protective regulatory standards, Mr. Wallingford declared.

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It was reported that New York State Brokers Assn. will file a statement opposing the inclusion of unilateral plans in the law.

Mr. Pike and Mr. Lackman said their organizations oppose an amendment that would give the banking department jurisdiction over all registered funds administered wholly or partially by a bank acting alone or with others as a trustee or agent and performing functions beyond those of an investment adviser, custodian or depositary and vesting jurisdiction over a other registered funds in the insurance department.

The line should be drawn between those funds in which a bank acts merely as custodian of the cash or property and those in which a bank performs some function beyond that of mere custodian, Mr. Lackman said. Mr. Pike agreed that it is difficult to draw a line of demarcation and said ALC and LIA will present their own proposal on this matter later.

Another proposal would give the insurance superintendent discretion to waive annual reports and examinations of funds covering less than 100 employes. Mr. Pike doubted that many joint funds have less than 100 members.

Mr. Pike and Mr. Lackman called for further study of a proposal to prohibit any officer or employe or person retained by a fund from engaging in any activity which might represent a conflict of interest. Although in favor of the principle, Mr. Segal wondered whether such a provision is necessary for attorneys, accountants, consultants, actuaries, banks and insurance companies in view of the existing limitations on their actions.

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Agents To Attend N.A.'s Party At Disneyland Jan. 9

Forty-five agents and their families from 30 states will go to Disneyland, Cal., as guests of North America, and will, with company officials and prominent laymen, take part in a conference there Jan. 9-13 to explore the role of insurance in furthering American family security. Random selection of the agents was made at the home office by Frank Blair, radio and TV news commentator.

North America is convening the conference, President John A. Diemand said, "so that we as a company can learn from the agents the security wants and needs of America's families. Through their daily contacts with families, the independent agents are in the best possible position to supply us with the information we seek. We want to learn from them."

North America chose Disneyland as the site for the conference because, Mr. Diemand said, "it symbolizes the family happiness and security we want to increase through modern, enlightened insurance practices."

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The agents who will go to the conference are O. Dean Ames of Omaha, Williams H. Brantley of North Birmingham, Ala., David E. Brightbill, Harrisburg, Pa., Elmer A. Bruns of Havana, Ill., Clifford D. Calvert of Wayne, Pa.; Mrs. Gloria Carmichael of La Mesa, Cal.

Also, Edward B. Carter of Wilmington, Del., E. W. Clarke of Oklahoma City, Jack B. Cooper of Wilmington, Albert R. Davis of Cleveland, William A. Eppright of Haddon Heights and Camden, N.J., Richard E. Erwine of Steubenville, O., Mrs. Dorothy H. Evers, of North Hollywood, Cal.

Also Harry O. Finch of Garden City, N.Y., Fred L. Forrest of Waseca, Minn., Richard C. Green of Bellingham, Wash., Paul O. Grodt, of West Des Moines, Robert C. Haeger of Wheaton, Ill., James W. Hanlon of Harrison, N.J., Joseph I. Hoch of Richmond, Ind., Lee H. Hunt of Nashville.

Also Lee A. Johnson of Grand Rapids, Clarence G. Koerber of Gainesville, Ga., Yancey P. Lewis of Prescott, Ariz., Franklin P. Liberty of Franklin, N.H., J. Ray McAuliffe of Allegheny, N.Y., Paul T. McGrady of Denver, Dan F. Moody of Owensboro, Ky., Roy J. Peoples of Lake Placid, Fla., Duane O. Petersen of Fillmore, Utah; Robert G. Petri of Fond du Lac, Wis., Edward J. Reardon of Kansas City, Melvin W. Ripley of Mays Landing, N.J., Arthur M. Roberts of Danbury, Conn., Charles W. Roberts of Andrews, Tex.

Also M. Edward Rudler of Meadville, Pa., Mrs. Helen Tall of Baltimore, Clayt Tallman of Flint, Mich., Owen H. Ward of Sacramento, Robert S. Webb of Asheville, N.C., James B. Whitaker of Philadelphia, Louis H. Wilson of Wellington, O., William J. Yates of Ossining, N.Y., and Ronald M Zschau of Millers Falls, Mass.

—

Chicago DITC Class Opens

New DITC classes have opened recently in Chicago and the 13-week study in A&S sales will be held every Wednesday afternoon. The course is open to all, and tuition is $40. Two hours of weekly class-room work and discussion are supplemented by field assignments and problems. The course covers A&S selling, key man and tax selling. Instructor is Eugene Farris, general agent of Midland Mutual Life.

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COMMENTS TRENDS OBSERVATIONS

Business Ought To Resist All Doubtful Claims, Agent Thinks

Charles M. Scott, president of Tri-State Mutual Agents Assn., writes in the association's "News":

A very disturbing trend in the outlook on claims has been observed by the writer in the last few years that I think deserves much consideration by insurance companies and agents—both mutual and stock. This is the attitude that, if someone gets injured or has property damaged, there should be compensation for these damages regardless of liability. We have had recent cases where liability was very doubtful, and where careful consideration should have been given, but where the tendency was to make some settlement regardless of liability. In view of the rising costs of accidents and claims this is a disturbing situation.

Agencies are greatly criticized for their loss ratios, but many claims are being settled for "nuisance values," which encourages claimants and attorneys to make claims in the hopes of getting something out of it regardless of liability. This is not fair to either insured, agent or company.

We feel that it is up to agents and companies alike to fight doubtful claims instead of encouraging them, in order that we might keep our companies solvent, and keep the rates within the reach of our customers. Possibly we should work for some limit of liability law in the states of Maryland and Pennsylvania, such as exists in Virginia. This would keep courts and juries from making excessive verdicts, and also help keep the rates within reason.

It is up to us agents to work for our business if we want to keep and enjoy it, because it is being attacked by various pressure groups, and if the rates get too high, the next pressure will be for state funds.

Speaker Bureaus Prove To Be Successful

New York State Insurance Speakers Bureau, jointly sponsored by Assn. of Casualty & Surety Companies and New York State Assn. of Insurance Agents, will hold a seminar in speaker instruction and technique analysis Jan. 23-24 at Syracuse university in Syracuse. Dr. J. Calvin Callaghan, chairman of the university's public address department, and Donald P. Ely, associate director of its audio-visual center, will conduct the two-day study program.

Dr. Callaghan will speak on planning and presenting a speech and stimulating audience participation, and will analyze excerpts of speeches given by those attending the seminar. Mr. Ely will deliver a talk on the sources and uses of visual aids to speakers.

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Organized in 1954, the bureau has grown steadily in membership and activity. It now has 150 speakers—60% of them local agents and 40% of them company officers, department heads, managers, and field men. Burt Youngman of Assn. of Casualty & Surety Companies is director.

Since its inception, bureau speakers have given approximately 1,000 talks on such subjects as auto coverage and rates, disposition of the premium dollar, insurance history, highway safety, fire protection, workmen's compensation, the role of the local agent, and various other aspects of insurance, to service clubs, chambers of commerce, business and professional organizations, PTA groups, driver education teachers and classes, and high school assemblies of up to 1,500 students. A question and answer session follows each talk.

The bureau's speaking season runs September through June. Some 400 talks were given during the 1956-57 season, 96 have been given since last September, and the bureau has scheduled the appearance of speakers as far ahead as next May.

To aid its speakers, the bureau distributes advance publicity on their behalf to newspapers. A roster of speakers containing pictures, business backgrounds and affiliations and subjects of its members also is put out by the bureau. For the speakers themselves the bureau provides a speakers manual containing speech outlines, source references, and suggestions for presentation.

In addition to New York, Assn. of Casualty & Surety Companies also jointly sponsors speaker bureaus in California, Illinois, Oklahoma, and New Jersey, and association staff members currently are assisting in the planning and formation of similar bureaus in Arkansas and Nevada.

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Young Agent Needs To Learn Use Of Sales Tools Available

Effective use of the tools at his disposal is the key to the success of the beginning insurance salesman, George H. Hulme, Framingham, Mass., agent, declared at the graduation dinner in Hartford which concluded the 166th session of Aetna Casualty's sales course.

Mr. Hulme, who is with the Fitts agency, told the graduates that the Aetna Casualty school has provided them with a working knowledge of some of the best insurance selling techniques. He cited Planrite, Plandex and Aetna Plan as efficient tools provided by that company for use in the survey method of selling insurance.

Mr. Hulme, who was graduated from the school in 1950, also praised the comprehensive dwelling and homeowners policies as outstanding examples of packages which have become so popular in the past few years. He said such policies represent a growing trend in the business and can be used to advantage.

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Mr. Hulme currently is serving as a director of the Framingham chapter of American Red Cross and as a director of the chamber of commerce there.

The class was led by Bruce MacDonald of Boston. Other winners of blue ribbons for scholastic achievement were Jack Balser of Atlanta, Lennox Black of Toronto, Harry A. Hall of Oxford, Mich., and Robert W. Michaud of Claremont, N. H. Gold ribbons for demonstrating outstanding soliciting techniques were awarded to Stanley J. Mitz II of Hartford, Kenneth Perkins of Chicago, John T. Stivers Jr. of Owensboro, Ky., William A. Inne of Hartford, Charles E. Jacoby of Idaho Falls, and Messrs, Balser, Black, Hall and Michaud.

—

Florida Home has declared a 5% stock dividend payable Dec. 20 to holders of record Dec. 10. This will give the company $525,000 of $10 par value stock instead of $500,000.

Company Executive Takes Issue With Agent On Flat Cancellations

In rebuttal to the comments of A. H. Kelley of Detroit, who in the Nov. 7 issue compared flat cancellations to department store merchandise returns, a company executice writes:

He makes the statement that larger department store operators expect "returned merchandise to equal about 10% of their sales." According to the 1956 operating results of department stores that 10% is a top figure, one that is reached only by stores with sales in excess of $10 million.

Stores from $1 million to $10 million do not find they can tolerate such a return and here the range is from 3.78% to 7.67%.

Incidentally all these figures are for returns and allowances.

Of course his comparison is of dollar sales for department stores versus policy units for cancellation, but more importantly than that I believe he has overlooked two vital points.

First, the department store owner owns the merchandise. It is his money that is not earning its keep. It might be argued that credit is also extended the merchant, but cash discounts play a large part in the net profit of the merchant.

Secondly, the returned merchandise is again saleable.

No so with flat cancellations. We are the ones whose money is at risk and we certainly would have to meet any loss that would occur during the period the insurance is in force. Thus when our policy is returned we have nothing to put back on the shelf.

Of course, any consideration of the control of cancellations carries with it the question of the use and abuse of binders. The problem of flat cancellations will not be solved if the promiscuous use of binders is permitted to continue.

We have been studying the subject of flat cancellations and I am sorry to say that the incomplete returns we have for this year shows a trend slightly upward.

Our previous study has revealed that slightly in excess of 20% of all policies are cancelled by one means or another. They might be catalogued as follows:

Flat	37.1%
Short Rate	24.1%
Pro Rata	18.3%
Non-Payment	6.9%
Spoiled	13.6%

We have in the past endeavored to educate the field and agency forces on the actual expensiveness of flat cancellations. Just as we did to bring about some relief for minimum premium, we will have to emphasize more the cost of flat cancellations to the agent himself if any degree of correction is to be obtained.

—

Boston Manufacturers Mutual and **Mutual Boiler** have elected Franklin K. Hoyt a director. He is treasurer of Houghton, Mifflin Co., Boston publishers.

EUA Cost Rise Folder Big Success

The response to the folder detailing reasons why insurance costs are going up, distributed to members of Eastern Underwriters Assn., has been "phenomenal," according to the EUA public relations committee.

The folder was originally prepared at the request of Eastern Agents Conference when it urged the use of some material at the agency level that would concisely explain to the public why higher rates are needed in the several areas of fire, wind, auto collision and auto public liability protection.

The folder lists the basic reasons for higher premiums, including the increased cost of building materials and labor on fire and wind claims, the higher prices paid for everything entering into company cost of operation, the mounting loss cost of collision due to new innovations in automobile design, plus the rapidly rising prices for hospitalization and surgery for the injured, and some of the unusually high sympathetic awards for minor injuries in auto accidents.

All of these reasons, combined with the unusual windstorm conditions which produced an all-time high in the number of storms in the midwest and south during 1957, and added to the 100-year record of north Atlantic hurricanes which struck populated coastal areas in 1954 and 1955, tell a story that is not generally known to many of the agents and few, if any, policyholders, the committee said.

The text of the new six-page, two-color illustrated folder embraces the four major coverages and was prepared specifically for the "man in the street" and not for those who are familiar with the technicalities of the business.

The idea of its use is comparable to the methods employed by electric, gas, telephone and other public utilities which are also subject to regulation at the state level in much the same manner as insurers.

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Reinsurers May Have Operating Edge For 1957; See 1958 As Worse Year

By KENNETH O. FORCE

The first thing that should be said of the reinsurance business is that in 1957 it has proved its real worth to the primary insurers. Few if any previous years have so clearly demonstrated the solid value of reinsurance facilities, and notably the basic ones of surplus and treaty accommodation. In former years this value could be stated with conviction. But in 1956 it could be said loudly, and for 1957 it can be shouted.

The character of the statements made by many insurers for 1957 will be substantially improved because of their reinsurance—and seldom if ever have they needed character more; and undoubtedly for a few companies reinsurance will mean the difference between making a 1957 statement and not doing so.

The past two years, and especially 1957 also have clearly shown the value of continuity in the insurer-reinsurer relationship. Next year is likely to prove more convincingly than ever the worth of a steady policy in this respect. Over the years, when the fortunes of the insurers were better, the temptation was strong for the insurer to shop around for bargains in reinsurance and to use recriprocal arrangements with other insurers for reinsurance purposes.

This does not mean that in times of good experience the reinsurers do not accommodate themselves to the market—they do exceedingly so. But today, when the reinsurers are being called on for increasing assistance, long term, well tested, continuous relations with the reinsurer are proving to be invaluable to the insurer. This insurer is quite unlikely to find itself in the position of the one that shifted for a quick saving to a reinsurer unused to writing the type of business involved. Last year the reinsurer that wrote the business lost $600,000 on it, and the insurer is going to be turned loose. Presumably the insurer can buy back in, but without credits or continuity, it will have to have plenty of money to do so. Few reinsurers in the business for any length of time have companies on their books that have not been into them at one time or another.

The reinsurer of course has to deliver reinsurance when it is needed. That is its function, and most of the reinsurers today are doing just that. What they would like to see with the insurers is a steadier attitude toward the reinsurance function. Insurers should not base changes on the results of only a year or two because reinsurance is a five to 10 year matter. By all means, they shouldn't make panic decisions.

Most of the professional American reinsurers appear to be in relatively better shape at year end than the insurers, and some of them show a point or two or three of black in operating results. But even those reinsurers that are, relatively, the best off, are not optimistic about the future, and they appear to feel especially lugubrious about the fire business.

It is doubtful if any of the reinsurers will show an underwriting profit for 1957. The reason for this, in view of the realities of the situation, is that all of them have experienced a fairly heavy increase in pemiums. For the larger reinsurers this runs from 15 to 25%. This is not surprising, in view of the need of relief by the primary insurers. The reinsurers actually have been hard pressed to hold down the premium rise to manageable proportions, and they were increasingly pressed as Dec. 31 loomed up for the many insurers that had lost surplus and needed to reduce liability, by portfolio or other reinsurance means.

Insurers are, as all are aware, in about as bad shape as they have ever been. The better operated ones have been working on the problem more or less all year by cutting poor agencies down or out, by reducing poor classes or territories. These underwriting corrections, taken in lieu of the inadequacy of rates to meet costs, have thrown a good deal of business on the market, much of it bad. A company that has lost surplus or that for even less critical loss reasons has been forced to slough off a bunch of business, naturally turns loose submarginal volume first.

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Insurers consequently have called on the reinsurance market for whatever extraordinary relief they could get. This has consisted to some extent, it is said, of lowering retentions. Some of it has been due to a rise in premiums for insurers. The pressure of increasing premiums has been felt by both insurer and reinsurer. More quota share reinsurance has been purchased, and there has been a considerable demand, as year end approached, for portfolio relief to tide the company over statement time.

The professional reinsurers generally have held their capacity in way of temporary portfolio, year-end relief for good clients. There have been plenty of portfolio offerings, but this was resisted by the professional reinsurers except where a permanent relationship was involved. The reinsurers expect a greater demand for quota share relief next year than this. In fact, they observe that the demand is not critical this year but is expected to be in 1958. Next week will, they believe, start the real year of decision for insurers.

The problem for the reinsurer today is to live through a high loss, high premium period and show a profit.

The past year resembles 1947 for the reinsurer as respects the increase in premiums. But in 1947 the business was profitable—most of the underwriting losses of that year were due to unearned premium reserves because of the rise in premiums. In 1957 the reinsurers have felt the same surge in premiums, but the loss experience of practically all lines is bad —the business is unprofitable. On top of this securities have declined in market value, which has put the reinsurers in substantially the same squeeze as the primary companies if not quite, so far, to the same extent. One reason for an increase in reinsurer premiums has been the abandonment by primary insurers of reciprocal arrangements. When the experience on lines pretty generally is unsatisfactory, the trading of business between primary insurers show up as a highly unsatisfactory device.

There is expected to be some reinsurance of business of companies that are in serious difficulties at year end or by March 1, the witching hour for statements. There will be among these companies a representation of both mutual and stocks, according to observers. One reinsurer commented that much of the mutual business, especially that of small mutuals writing in a small area, tends to be of good quality, worth saving, because of the generally close grasp of physical and moral hazards maintained by mutuals, especially the small ones, over the business they write. For example, a mutual will rate a barn for extended coverage but will exclude the tar paper roof.

One difficulty with the portfolio route to relief is that with the loss ratio so high on so many lines, the business will not pay its way. For example, if an insurer is laying off $1 million at a commission of 40% to the reinsurer with a 5% adjustment factor, and the business runs off at 80%, where is the ceding company going to get the $250,000 for the 25% commission it paid agents?

For the reinsurers, surplus has been

(CONTINUED ON PAGE 28)

Survey Of European Situation Shows It To Be Much The Same As In The U. S.

By L. TYTENS

Comments on U. S. business can be applied to European insurance transactions.

Random figures of some European reinsurance companies show that while they have experienced underwriting losses, nevertheless they still have a final profit balance arising out of income and profits on investments and overriding commission on business retroceded.

The latter source of income is not separately shown in the balance sheets. But it is known to exist and where a large volume of the incoming business is retroceded, this may be a well worth while credit item.

But here, however, a question arises: If the over-all results of the retained account is in the red, it would be normal for the retroceded business to show the same results, and if that is so, this may very well turn out to be a very unsound state of affairs.

The following list will corroborate that statement:

	1. % Retained of Gross Premium	2. Underwriting Results %	3. Investment Income % of Col. 2
First Bohemian Re bank, Prague	62	— 3.4	120
Salamandra, Copenhagen	61	— 3.1	180
Rossia Re, Copenhagen	74	— 3	250
Caisse Centrale, Paris	72	— 5.6	87
Soc. Italo Americano di Riass.	42	— 1.1	80
New Re Co., Zurich	33	— 1	360
Universal Re., Tangier	23	+ 1.7	77
Soc. An. de Reass., Paris	70	—10.5	89
Compagnie Francaise de Reass.	65	— 5	150
Victoria Ruck, Dusseldorf	100	+ 5.8	140
Reale Reassicurazione, Torino	55	— 4	105
La Vittoria Riass., Torino	27	— 3	140
Aequitas, Stockholm	26	— 3.7	130
Stockholm Re	36	— 3.2	115
Stettiner Ruck., Lubeck	90	+ .24	3300
Swedish Atlas Re, Stockholm	59	— 1.98	230
Skandinavia	47	— 4.7	190
Universale Re, Amsterdam	61	— 1.7	220
La Reass. Internationale, Paris	43	— 4.7	90
Reasuguarodora Espanola, Madrid	56	— 2.3	105

This represents an assortment of companies of international standing. The figures for the two leading reinsurers show that Swiss Re retained net 76% of its gross premium income, the profit ratio on the net retained account was 1.8%, and investment revenue represented 284% of the underwriting profit. This is for 1956.

Munchener Ruck, for the bookkeeping year ended July 1, 1956, retained about 86% of gross premiums with an underwriting profit on the net retained account of only .25%. As a result of this reduced profit the investment revenue compared with the underwriting balance was about 2290% or 23 times as great.

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Consider the results of the business of some British reinsurers. Eight British stock companies are registered as professional reinsurers, but only four of them have a net premium income of more than one mllion pounds. The leading company of the four has close connections with Swiss Re. While the over-all underwriting result of the eight companies was a loss of 1.47% compared with net premium income, the four companies referred to had an over-all underwriting deficit of about 1.9%. It should be noted, however, that expenses of management have been taken into account when assessing underwriting results for the British offices. Had they been stated separately, as in the case of Munchener Ruck and Swiss Re, the underwriting results of those British offices would have been quite as good as if not better than the figures recorded by Munchener Ruck and Swiss Re. Those expenses may be assessed at an average of 2.5% compared with the net premium income. British reinsurers separate their business in three classes: General (fire, casualty, etc.), life, and marine. The investment revenue that accrued to those companies is far in excess of the underwriting deficit.

Only three of the four British reinsurance companies considered here transact marine business, and while there is an over-all increase in premium income in that class of risk, the marine insurance fund is proportion-

(CONTINUED ON PAGE 25)

XUM

General Re Facultative Unit Gives Admitted Market For Many Risks

By KENNETH O. FORCE

Early in 1954 General Re announced the organization of a new department to provide facultative reinsurance of individual casualty risks "which because of the hazard or amount of insurance involved, insurance companies are either unwilling or unable to handle within their normal treaty reinsurance facilities."



Brice Frey

As Brice Frey, vice-president in charge of the new division, points out, being the first venture of its kind and admittedly an experiment, much careful planning had preceded the announcement. Frank opinion was solicited from General Re's treaty customers and from friends with proved ability in the business. Retrocessional facilities were obtained from three continents with care taken to minimize the exposure of any one participant.

One might well ask how they could expect or hope to make a profit out of business rejected by the primary markets, particularly in these times. The most important answer lies in the fact that a truly facultative reinsurer has the good fortune to operate in an atmosphere of pure underwriting, Mr. Frey said. Each risk is considered on the basis of its individual merits. Consideration of collateral business, reciprocity or accommodation of distress business at bargain prices are practices completely foreign to this operation.

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Today, 3½ years later, this reinsurance facility handles about 400 risks per month, has been expanded to include inland marine, fire and allied lines, and with a staff of six underwriters has served more than 200 American and Canadian insurance companies.

As far as the mechanics of this operation are concerned, simplicity is the key and service the watchword, Mr. Frey commented. In the casualty field one simple document with statement for the premium attached permits issuance and billing of the reinsurance contract in a matter of minutes whether the risk be automobile, steam boiler, workmen's compensation or any other class. Submissions are received by mail, telephone, telegraph and over a Teletype machine which gives the department immediate two-way written communication with the many insurance companies who subscribe to the service. Risks are never submitted to the General Re's facultative department until they have already become problems to the ceding company, and the usual peculiarity of such business is that the decision should have been made yesterday. With very few exceptions, quotations are made within 24 hours after receipt of adequate underwriting information.

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In the casualty field all quotations are made on a net basis, which frees these underwriters completely from negotiation of commission or consideration of expenses, Mr. Frey said. The ceding company is, of course, free to adjust the reinsurance quotation to cover commission, taxes, expenses and profit in establishing the gross original premium for the risk.

Certain basic underwriting principles govern the department's casualty operation. While the ceding company is free to select its retention or participation, and while the reinsurance may be purchased on either an excess of loss or quota share basis, they seek to avoid involvement in areas of normal loss frequency. Thus, while the approach to the capacity problem presented by a large money and securities policy would be pro rate or quota share, an automobile fleet would only be handled on an excess of loss basis. Thus, underwriting by the division not only involves consideration of the merits of the risk but also often requires appraisal of exposure at varying levels of indemnity.

As the ceding company has complete control of loss settlement, it stands to reason that it should also have an interest in the loss; therefore the department will not write covers such as excess of aggregate workmen's compensation or provide quota share reinsurance without a reasonable participation by the ceding company.

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While the casualty operation provided a two-fold answer to problem risks in offering tailor-made and individually rated reinsurance to spread exposure involved in unusually hazardous risk and also additional capacity to augment treaty reinsurance facilities with respect to desirable business requiring large amounts of insurance, the fire facultative reinsurance facility, because of the very nature of the business, confines its activities almost entirely to capacity problems. The ceding fire company is controlled both as to coverage provided and rate charged, and the primary fire underwriter's technique differs substantially from his casualty counterpart. He is concerned with premium pitched to known value and calculated exposure on the basis of rates applicable to specific classifications. He can say "no" and frequently does but is far more likely to say "yes" and accept a reduced line where the classification involves known frequency.

The best underwriting talent in the fire business, aided by all the actuarial and engineering tools available, frequently have been proved wrong in

(CONTINUED ON PAGE 28)



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Reinsurance Serves Special Function In Connection With Self-Insurance Plans

By CHARLES F. McCARTHY

What is reinsurance? What is its purpose?

Before answering these questions, let me state a basic insurance principle familiar to most underwriters. It is generally agreed that an insurer can withstand normal average losses without any adverse effect on its surplus position. However, abnormal or catastrophic losses would result in a serious drain on surplus and thus jeopardize the company's financial structure. To avoid such a calamity, insurers seek to equalize their experience by reducing their peak liabilities through reinsurance. Therefore, the primary purpose of reinsurance is to stabilize underwriting losses.

Reinsurance may then be defined as a method whereby an insured relieves itself of a share of liability in order to level peak liabilities and distribute the risk, thereby reducing its possible loss and rendering the law of average operative.

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Although in a literal sense reinsurance presupposes an underlying policy of insurance, the term "reinsurance" is becoming more and more associated with self-insurance. In fact, workmen's compensation statutes of certain states specifically mention the term *reinsurance* when referring to the ability of a self-insurer to meet excessive or catastrophic losses. Section 25A(2)(c) of the Massachusetts workmen's compensation law states: "As a further guarantee of a self-insurer's ability to pay the benefits provided by this chapter to the insured employes, every self-insurer shall make arrangements satisfactory to the division, by *reinsurance*, to protect it from extra-ordinary losses caused by one disaster."

What is self-insurance? How is reinsurance applicable to self-insurance?

Self-insurance may be defined as a planned program of self-assumption of risk. Since a self-insurer is in effect a insurer of its own risk, it must be prepared to protect itself against shock losses. Whether such protection takes the form of excess of loss insurance, catastrophe coverage, deductibles or reinsurance depends on the self-insurer's retention, the type of perils covered and the company providing the protection. While each form differs technically, many underwriters use these terms interchangeably and there is much confusion regarding their precise meaning and application. Indeed, as members of the committee on rates and rating organizations of National Assn. of Insurance Commissioners say: "It seems evident that the line of demarcation between excess insurance and reinsurance is thin, and it may be necessary to judge each case on its own merits."

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If reinsurance stabilizes an insurer's experience, would it not also stabilize a self-insurer's experience if it can be shown that the operations of a genuine self-insurer are similar to those of an insurance company?

Before discussing the application of reinsurance to self-insurance let us briefly examine the factors which

(CONTINUED ON PAGE 32)

(This essay won the 1957 Sterling Offices prize for the best reinsurance essay submitted by a student in the reinsurance course given by the school by the school of insurance of Insurance Society of New York. Mr. McCarthy presently is with the reinsurance department of Atlantic Mutual group, where he is an assistant to Donald H. Chadwick, reinsurance secretary. He has had extensive reinsurance experience as a casualty underwriter and in the handling of reinsurance on unusual lines. He is a CPCU.)

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Evolves Modified Form Of Quota Share Treaty Combining Several Reinsurances

John M. Kidd, U. S. manager of Norwich Union, has evolved a modified form of quota-share treaty which he anticipated putting into operation for his own company and which is aimed at the particular, critical problem of the smaller company.

The method has as its basis the fundamental principle of surplus treaty reinsurance and at the same time selects the best elements of quota-share, stop loss, spread loss and excess of loss methods. It will be adaptable to the reciprocal exchange of treaty between companies.

His outline of the program is substantially as follows:

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In any consideration of treaty reinsurance, it is necessary to start from the premise that there can never be any departure from the maxim of underwriting for gross account. A direct-writing company must be able to produce a profit on its gross account over a credible period with some degree of regularity. All it can expect of reinsurance is relief in abnormal years of peak claims. It cannot hope to unload losses at the expense of a reinsurer. Conversely, any sharing of the common fortunes should compensate the ceding company equitably for its initiative.

The scheme submitted in this memorandum envisages the cession of a quota-share of fire and allied lines business to enable the ceding company to obtain the technical assistance it requires to reduce the fluctuations in the level of its losses in any one year and to afford a controlled financial relief which may be needed during the stages of building a portfolio. The design of the plan will permit the percentage of the quota to be flexible so that as the fortunes of the ceding company move the share to be given away will be capable of adjustment. It is inspired by the need for a plan which will be well adapted to the reciprocal exchange of reinsurance and will permit all the savings in mechanical operations which quota-share implies.

A fundamental feature of any pro rata form of reinsurance is the credit obtained by the ceding company in its unearned premium reserve over the volume of business given off and the principle of quota-share has been selected with this specific end in view.

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The modification in the form proposed is brought about by introducing into the quota-share arrangement the fundamental principle behind surplus treaty. The latter recognizes the reasonable predication that a direct company has the right to hold for its own retention the preferred slice of the business and reinsure a pro rata share of that part of a risk which it deems needs protection. It is the fair reward for the comparatively greater work of the direct company in developing a portfolio of insurance business and the principle is freely admitted by the reinsurer—whose only contribution is to decide whether or not he wants to participate.

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surplus-treaty method has the effect of flattening the loss curve in any one year of the ceding company while the law of average over several years is expected to even up the anticipated variations of that of the reinsurer. This result is obtained, in the plan now presented, by the ceding company limiting its liability to an agreed proportion of the loss ratio and the reinsurer taking care of the rest. The costly detail operations of the surplus treaty method of making individual cessions and loss recoveries are thus avoided.

The theory of this hybrid—a quota-share-surplus treaty—is based on the composition of the fire insurance rate. The latter, it will be recalled, was developed on an arbitrary (though thoroughly logical) division of losses and expenses by allotting one-half to pay losses and one-half to cover expenses and profit. Thus, a direct company would expect, basically, to pay out half of its gross volume in losses. (It has to be borne in mind that expenses in this formula are reckoned to include a charge for loss adjustment expense).

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The proposed scheme utilizes the rate-making theory very simply. The direct company arranges to share with a reinsurer a predetermined proportion of its losses—the actual figure being dependent upon the former's current surplus situation—and pay the reinsurer for the accommodation, all of which is in keeping with the fundamental theory of buying reinsurance. In other words, whatever its gross premium volume, the company recognizes that losses are represented by half the premiums and all that remains to be determined is how much it is going to reinsure.

Let us assume that a company with $10 million gross fire volume feels that it needs help in sharing its losses. The company decides that it can safely take care of, let us say, half the losses and is ready to reinsure the other half. (It could just as easily fix upon a fraction more or less than one-half but anything less would thin out the quality of the surplus.) Working on the accepted premise that the division of the premium allocates 50% to the payment of losses, the ceding company will hold $2,500,000 for its proportion and hand over to the reinsurer $2,500,000 to cover the latter's half of the deal. It will be understood, of course, that the cession of 25% quota-share of the gross portfolio does nothing more than pay for the pure loss which the reinsurer has agreed to assume—and does not include a proportion for the payment of loss adjustment expense.

Under the ordinary type of quota-share treaty, the ceding company and the reinsurer would share the losses in exact proportions but the former would have no proper recompense for its enterprise. The arrangement proposed, therefore, embraces the privileges which have been tacitly incorporated in the principle of the surplus treaty method whereby the ceding company has the benefit of leveling off its loss experience in a given year while the reinsurer looks after the oscillations. This feature is introduced into the proposed quota-share treaty by using a portion of the loss ratio as a ceiling to represent the share of the losses to be borne by the ceding company.

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While 50% is the theoretical loss ratio in rate-making, the initial loss ratio which would form the basis of this treaty each year would be the average over a term of years, and the preceding five years is a fair test of experience. Supposing the basic loss ratio thus ascertained were indeed 50% and at the end of the first year the actual loss ratio were exactly the same, each party would pay 25%. If the actual loss ratio for the year had been 45%, the ceding company would still bear 25% (its ceiling of one-half the basic loss ratio) and the reinsurer the balance of 20% and thus build up a reserve. Conversely, if the actual had been 55% the ceding company would pay 25% of the losses and the reinsurer would pay 30% and, for that year, be out of pocket.

The initial "basic loss ratio" must necessarily be variable. It will move up or down with the average over the preceding five years by the customary method of dropping one year and adding another. In the same way, the ceding company's proportion, which remains constant as half of the basic loss ratio, will move each year with the experience. The effect will still be to flatten its loss curve as in any form of surplus treaty but not in so arbitrary a fashion as to put it out of harmony with the theory that the ceding company must carry its just share of the common fortunes.

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The reinsurer, on the other hand, will take care of what remains of the actual loss ratio at the end of each year above half the basic loss ratio. Its part of the loss will have greater fluctuations than that of the ceding company—but it is the role of the reinsurer to be responsible for the "chimney pots." The law of average over a period of years will guard against the accidents in the treaty loss expe-

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rience provided no other influence intervenes to upset the balance of the gross portfolio. There would, of course, have to be some reasonable guarantee of continuity of the treaty remaining in force until the reinsurer's losses would have been wiped out or vice versa.

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It can happen that the loss ratio over a credible period is too high to correspond to the allocation of premium made to cover the pure losses and a search will then have to be made for weaknesses which may have crept into the underwriting policy of the ceding company. If that is not the source of the trouble the level of rates of premium prevailing will be found to be too low. Such a situation could occur in an inflationary period and the whole portfolio would remain out of balance until an increase in rates were obtained.

In a period of years which are productive of normal conditions, the premiums ceding to the reinsurer ought to be enough to pay for its share of the losses but it is desirable to impose upon the ceding company some contribution to the losses borne by the reinsurer over the basic loss ratio. While the former, under this treaty, will succeed in rounding off its experience in any given year, the latter needs some assistance in a particularly bad year—and it is also sound psychology to compel the ceding company to have an interest in the "excess" losses as a brake upon its underwriting policy and its general conduct. Thus the ceding company would be cut in for, let us say, 5% of all losses above the basic loss ratio.

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The expenses have also to be shared by the reinsurer and this question brings us back again to the fundamentals of rate-making. In reinsurance, as in direct insurance, a share of the premium has to be allocated to expense. While pure loss alone has been touched upon so far, the premium to be paid to the reinsurer must be built up into a practical arrangement. The quota-share of the gross volume (which is the reinsurance premium) must include an item for expense to offset the ceding company's cost of putting the business on its books, and the combination of pure loss and expense in the premium will enable the ceding company to take the maximum credit in the reduction of its unearned premium reserve.

Working again on the 50-50 accepted theory of rate-making, the quota-share (which, up to now, applied only to pure loss) will be doubled. With the same gross volume of $10 million and on the basis of the reinsurer bearing half the losses, the quota it would receive would now be $5 million from which it would return to the ceding company a reinsurance commission of 50%, or $2,500,000. In theory, the reinsurer would not be paying more than its exact proportion of the ceding company's gross expense since it is receiving half of the gross premium.

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It will be clear then that the rest of the expense, half of the gross volume, namely, $5 million which has been retained by the ceding company is augmented by the reinsurance commission of $2,500,000 and out of the total of $7,500,000 it has to pay the following: (1) all expenses of acquisition and operation; (2) its share of the losses below the basic loss ratio; (3) 5% of the reinsurer's losses over the basic loss ratio; (4) all the loss adjustment expenses plus (5) a special allowance of 2.5% of the premiums ceding by way of reasonable expense to the reinsurer for the accommodation it affords. In practice, the 50% commission would, for simplification, be reduced to 42.5% to allow for the last two features, namely, 5% —admittedly an arbitrary figure which is a fair average—of the quota ceded to cover loss adjustment expense and 2.5% for the reinsurer's expense.

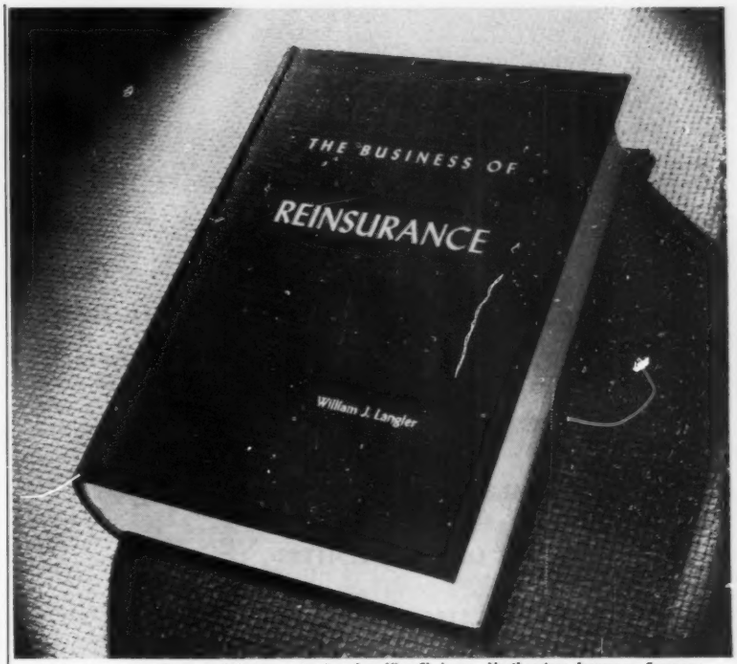
A balance wheel would have to be introduced into the arrangement to guard against the reinsurer piling up too much in the way of reserve in good years and a contingent commission (which would bear a positive relation to the proportion ceded) would act as a leveller. In the same way, the interjection of a very bad year in a good experience would be met in the contingent formula by a deficit carryover of, say, two years which is only fair to the reinsurer.

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Up to this point, the quota-share-surplus treaty has been developed from the angle of placing it with a professional reinsurer but its form has been designed for an exchange of treaty with another direct company. Obviously, there has to be a common ground. The two companies must be nearly alike in the class and size of business they write, have a comparable experience and would exchange roughly the same dollar amount of premiums. Each company would also have to give off the same "proportion of its losses"—although there would be nothing to prevent one company from, reassuming a share of its own treaty in order to increase its holding of its business. Such reciprocity could be used up to 100% of the losses which a company would want to share. The effect of reciprocity would be to introduce an element of horizontal spread (which is desirable) and the exchange of portfolio would compensate for the substantial loss in investment income involved in giving away a large portion of the gross premiums.

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The scheme outlined in this memorandum of combining surplus treaty with quota-share may be unusual but it would not appear to be illogical. It is certainly a departure from the normal surplus concept of ceding a share of selected risks, and the absence of individual treatment might appear to lay it open to criticism on that score. But, in actual practice, the underwriter would go through exactly the same motion in fixing his gross acceptance but with the multitude of mechanical operations normally employed omitted. In the change over to a treaty such as that proposed, a company with a seasoned record of its underwriting policy would proceed as before. Any increase in the set underwriting limits would only be made, as in any plan, when it is warranted by the growth of business. Any element of slackness in taking advantage of the lack of record of individual acceptances, by writing hazardous business or a greater line than that laid down in the underwriter's guide or, going much further, by developing an excessive volume of low cost business in the expectancy of having a greater amount of expense to play around with, would before very long, unbalance the whole portfolio and upset the treaty. It would, therefore, be incumbent upon the ceding company to afford the reinsurer some warranty of its general underwriting policy with evidence that it will adhere completely to the practice of developing its business for its gross account and that it will not use re-



By W. J. Langler, Dean of Reinsurance in America, Vice-Chairman, Northeastern Insurance Company

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insurance simply as a means of improving its net result.

The element of stop loss in this "quota-share-surplus" treaty might suggest that a catastrophe cover would not be required. The danger of disaster is always present whether on a gross or net basis and for the protection of the whole account there must be introduced an extra coverage over the whole account on a high excess of loss. The premium would be borne jointly by the ceding company and the reinsurer and each would pay its proportion in relation to the quota ceded by deducting it from the gross premiums.

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Any scheme of reinsurance returns inevitably to the thesis that the ceding company must underwrite for its gross account and not for its net; whether it employs straight quota-share, surplus, stop loss, spread loss or excess of loss, all methods subscribe to the same fundamental principle. Each is only intent upon lopping off the peaks, more or less high, of its gross loss experience in any one year. The difficulty which all of these methods encounter, however, is the remuneration of the reinsurer for they do not go beyond a process of trial and error, and a danger is always present of inequities on either side; none is scientific.

The plan outlined here is tied to gross underwriting. It selects the best elements out of each of these systems and is probably the nearest approach to a true mathematical spread loss, not only in its method of compensating fairly the reinsurer but in fixing its net line or deductible or excess of loss, whatever expression is used. A proportion of the losses (which, in turn, means a percentage of the gross premium writings as opposed to an arbitrary deductible which is too often lacking in realism) is a logical estimation of the amount of which a direct company desires to hold for its own interest. (In the scheme proposed, the deductible is increased mathematically by reassuming an increased share of the treaty.)

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From the reinsurer's angle, the proposition is fair. It receives a relatively fat volume of premium income which can be invested profitably. It has a constant 2.5% expense more than the ceding company receives. It has an additional slice of fat in the years when the loss ratio is below the previous five years' average. In those years when the reinsurer has to pay excess losses, it has a gratuitous contribution from the ceding company; and if a protracted period of high losses were to occur, the ceding company might deem it advisable to kick in, temporarily, a greater share of the excess losses. Altogether, the arithmetic of the arrangement is so fair to the reinsurer that all the profit on the gross account will almost invariably adhere to the reinsurer's side of the treaty and thus it is only equitable that the reinsurer should share the benefit with the ceding company in proportion to the quota received.

The fundamental basis of the "quota-share-surplus" treaty is a logical division of the premium dollar with an extra allowance by the ceding company for peak losses plus an arbitrary payment to cover the whole accommodation provided by the reinsurer. It will operate well on a soundly underwritten gross portfolio, the volume of which is only controlled by the size of the ceding company's policyholders surplus.

—

Name Premo Conn. Commissioner To Succeed Spellacy

Alfred N. Premo, deputy insurance commissioner of Connecticut since July, 1955, has been appointed commissioner to succeed the late Thomas J. Spellacy who died in his sleep while atending the midwinter meeting of National Assn. of Insurance Commissioners at New York.

Gov. Ribicoff appointed Mr. Premo to fill out Mr. Spellacy's term which extends to June 30, 1959. Mr. Premo formerly was a special agent of Hartford Steam Boiler.

Following his swearing in, Mr. Premo appointed William R. Cotter, special assistant in the governor's office, as his deputy. Mr. Premo and Mr. Cotter are residents of Hartford.

—

Malcolm Buchanan To Retire After 50 Years With Minn. Rate Bureau

Malcolm Buchanan, manager at Duluth of Fire Underwriters Inspection Bureau, will retire Dec. 31 after 50 years in bureau work.

Mr. Buchanan was born in Scotland and moved to Duluth in 1906. On Dec. 1, 1907, he joined Fire Underwriters Inspection Bureau at Duluth, becoming manager there in 1928 after the retirement of J. B. McLaren.

Mr. Buchanan's successor is Herbert E. Johnson, who will take over Jan. 1. He has been with FUIB for 35 years.

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N. Y. Board Of Trade Insurance Group Elects

The insurance section of New York Board of Trade has named five new members to the executive committee—Arthur Fleischhauer, Fireman's Fund; Albert E. Mezey, agent; Alexander Heide of John A. Eckert & Co.; Frank Schiff of Schiff-Terhune & Co., and Lester Van Name of Despard & Co.

W. Irving Plitt, vice-president of Atlantic Mutual, has been reelected chairman; Charles W. V. Meares, New York Life, vice-chairman, and Eugene C. Richard, American, representative on directorate. Harry F. Legg continues as secretary-treasurer.

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European Reinsurance Situation Is Surveyed

(CONTINUED FROM PAGE 17)

ately smaller than at the end of 1955. It should be added here that British reinsurers, some of them at any rate, underwrite a marine account direct, in addition to reinsurance.

A few national results show the same general picture on net underwriting as for individual companies—a loss offset by investment incomes. The figures do not apply to all the stock companies of any one country. Investment profit is stated in relation to underwriting results.

In Holland 18 companies retained net 71% of gross premiums, they had a 7% underwriting profit, and an 83% investment profit. In Belgium, 30 companies retained 70%, had an underwriting loss of 1.1% and an investment profit of 1200%. In Italy, 40 companies (for 1955) retained 54%, had an underwriting loss of 2.5%, and an investment profit of 255%. In Sweden, 40 companies retained 60%, had an underwriting loss of 4.7% and an investment profit of 200%.

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Figures available from companies in other countires show they sustained an underwriting loss on the net retained account except in Germany and Spain where there is still apparently an over-all credit balance. This also applies in Great Britain. It is not possible to comment on results separately on each individual class of business, not even on French business, a country where very thorough measures of control are in operation.

In France, for 1956, 27 companies reinsured 22% of gross premium. Claims amounted to 56% of the premiums ceded and the technical reserves took up another 13%. Twenty-five other companies ceded 40% of premium income; claims settled accounted for 61% of the premium ceded while bringing reserves up to date required another 17%. The total result for the reinsurers of these 52 companies is: They reinsured 29% of the gross premium income, claims cost 59% and reserves 16% for a total of 75%. I applied last year a similar investigation to the business of 27 companies only (1955 business) and in accordance with the figures considered the claims and additional reserves represented only 70% of the premiums reinsured. The difference not only in volume of premiums ceded but also in results should be found in the fact that the first group included more fire business than the second group, when it is admitted that the reserves required for outstanding claims are in fire business (100% in this case) smaller than for those in casualty (130% in this case).

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When reinsurance commissions are brought into account (minimum 30% on the average and more than likely much more) it will be noted that average results on French reinsurance business are not favorable at present. This does not mean of course that all treaties show adverse results.

Caisse Centrale de Reassurance of Paris is the French government owned reinsurance fund to which all insurers operating in France (except the government owned companies) must cede a share of their business (4% in case of fire). In 1956 the over-all underwriting profit of Caisse was 1%. This business was protected by what I think must be excess and/or stop loss treaties. The underwriting profit earned by the reinsurers was about 55% of Caisse's underwriting profit.

The organization also operates as a "normal" reinsurer, and this part of the business is termed "free acceptances." The premium volume derived from that source represents about 45% compared with the first section, and sustained an underwriting loss of about 1.7%. They retroceded about 27% with an underwriting profit to their reinsurers which represents to Caisse Centrale another 1.15% of its premiums in the "free" section. This results in a total net underwriting loss of 4.7% on the net retained account. While it is normal that security by way of excess or stop loss treaties should result normally in a profit for the reinsurers, it is rather exceptional that reinsurers should part with such a slice of profitable business on an account which shows an over-all underwriting loss.

There is a basic difference between the methods of transacting business in Belgium, France, Great Britain and Holland and methods employed for the most part in other European countries. Whereas in the first four countries brokers play an important role in placing risks, in the other countries brokers are less prominent or nonexistent, and this results in a greater need of reinsurance facilities in these other countries.

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Relying on statistics issued by the French government and on 1955 business in France motor third party and fire, results have still further deteriorated. These two lines together account for 49.3% of the total volume of non-life premiums. Of 77 non-nationalized companies 28 had a balance in favor of their reinsurers. The total credit balance in favor of the rein-

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surers was 1.4% of net retained premium; this latter figure represented 65.6% of the gross premium account. In 1954 the corresponding figures were 6.9% and 64.3%.

This list includes the business of their retrocessionaires of 5.8% of the total net premium account of the 77 companies; there, if this credit was brought into account, there would be a loss on the business reinsured by the direct writing office of 4.4%.

This figure is corroborated by the business of the group of 18 government owned companies. They retained in 1955 76% of the gross premium account against 75% in 1954. Their reinsurers had an underwriting loss of 1.7% on the net retained account whereas the balance was in favor of the reinsurers in 1954 to the extent of .45% of the net retained account.

But when investment revenues were added to the underwriting account there was an over-all credit balance:

(a) For the free companies, in 1955, 8.35% on the net premium account and in 1954, 6.15%.

(b) For nationalized companies, in 1955, 6.3% on the net premium account and in 1954, 3.9%.

The share in the total gross premium income was for each group, respectively, in 1955, 55 and 45%; and in 1954, 57 and 43%. There was an over-all increase in 1955 compared with 1954 of 13.5%.

The most important sources of premiums were motor car risks 25.5%, fire 13.8% and incoming reinsurances 25%—of total gross premium income. In 1954 the corresponding figures were 23%, 14.5% and 27.5%. The proportion of net retained premiums on those three classes were, in the order stated above, in 1956, 77%, 70% and 63%, and in 1954, 79%, 67%, and 63%.

Comments indicate that automobile risks are bad and getting worse. But it must be added here that the French authorities have authorized consideration of an over-all increase in third party liability motor car premiums. Other measures are contemplated to improve this very important class of busines, but no one can foresee what the new measures will be.

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Fire business, which still forms the backbone of any sound insurance business, is being downgraded not only because claims are more frequent and more important than before but also owing to competition and not overlooking that in 1952 or thereabout, at the request of the government of the time, fire rates on factory risks were reduced by about 20%. This is the class of risk which still forms in many cases the bulk of reinsurance premiums.

Referring now to the very important report issued by the Central Union of the Insurance Business in Germany, the total premium income of all companies belonging to the union increased by 13% in 1956. The premium income of non-member companies of the union, representing only a very small fraction of the total premium income, increased less. The over-all result of the business was satisfactory in Germany in 1956. For the two groups of companies, the 1955 and 1954 loss ratios were: Fire 50.4 and 48.3; burglary 17.7 and 17.5, third party liability 79.1 and 82.4, personal accident 54 and 56.4, motor car insurance 68.9 and 67.6, inland and ocean marine 68.2, 67.7, storm damage, 78.1 and 54.4, and crop hail 69.5 and 67.2. Third party liability, after poor experience in the course of recent years now is showing a tendency to improve. Storm damage cover of course cannot be relied upon to show a steady underwriting result. A fairly new insurance section in Germany, consequential loss (fire), has shown an increase of premium of 34.5%, a direct result of the adaptation of the insurance to modern requirements. Fire premiums increased only by 7.3%.

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Physical damage insurance still suffers from underinsurance and this remains a basic problem. Not withstanding the over-all increase in premium income, rates nevertheless are being downgraded. Fire insurers are quite aware of increased fire hazards. New rules of fire prevention are studied and applied.

Motor car insurance is in Germany, as elsewhere, a problem. Rates are government controlled and there is a no claim bonus system, introduced two years ago. Some companies share with profits with their auto PHD insured, but this is mainly the case with specialty and regional companies. Auto PHD premiums increased by about 16.9% in 1956.

Inland and ocean marine premiums increased by 15%. While in Germany there are no restrictions on freedom of insurance, it is regretted that the endeavors of all the international insurance bodies have not succeeded in furthering the waiving of restrictions on freedom of insurance. Then there is the problem of unrestricted competition and irresponsible quotations by foreign underwriters which force down already low rates of premium.

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A pool of German insurers transacts aviation insurance. In 1956 premiums rose 66% over 1955. This is the direct result of the formation of German commercial aviation. While the run of this account is satisfactory, this section of the German aviation pool has the same difficulties to solve as other markets, though apparently they do not have foreign competition. Personal accident insurance for aviation risks is an important part of this business. But the increased seating capacity of modern aircraft gives the underwriters problems on the liability side.

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Fire insurance in Germany was satisfactory, though results from abroad were disappointing, mainly U.S. and Canadian business, and particularly extended coverage. German fire reinsurers apparently make use of their large shares of fire reinsurance business from German reinsurers to obtain incoming fire treaty business from abroad. This is indicated in the balance sheet of Munchener Ruck, which shows that it retroceded 39% of the total premium income. Considering the business Munchener Ruck normally would obtain in return for their retrocessions, doubtless the business it gets, without having to supply reciprocity, may amount to about 50 to 60% of its total fire premium income. All other sections of the fire insurance business were profitable, except third party risks, mainly auto liability.

London Lloyds underwriters are keen on writing business not transacted by more orthodox underwriters. Lloyds keep each year's account open during the ensuing two years, and on closing any one year's account they transfer to the following year a reserve for the still outstanding liability. They also plough back into the account investment revenue on underwriting funds. Thus interest revenue in the marine and aviation account for 1954 (this account was finally closed on Dec. 31, 1956) represented 8.8%. It must be noted that each year's account, when finally closed, embodies all the premiums earned in the course of the years considered.

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Another feature of Lloyds' accounts is that the expense ratio is very low, not in excess of 2.5% of net premiums, in all lines, after deduction of brokerages and outgoing reinsurance premiums.

The underwriting results of Lloyds are as follows: Marine 10.7% against 11.6% in 1954 and an average profit of 11.9% for 1948-1953; combined marine and aviation a 11.55% profit in 1954 and a seven years average of 12.05%. On motor the profit was 4% (expenses 9.4%), the smallest profit balance over a period of six years, the average being 11.9%. There has been a steady increase in the volume of business in this account of over 90% in the course of the last six years. Fire and general (the motor account represents only 5.7% of the total premium income of this section) increased by 5.9% in 1954. This account has more than doubled in the course of the last six years. The combined fire, motor and general account for 1954 shows a profit balance on an expense ratio of 2.35. Over a period of seven years the average profit balance was 7% on an expense ratio of 2.45. The 1955 experience shows an improvement over 1954. The over-all result of all departments in 1954 was 7.18%, and the average over seven years was a profit of 9.95%.

What is the secret of Lloyds profits on—in very many cases—unorthodox risks and insurance conditions? There is no mystery about it. They are underwriters in the fullest sense. And the queer thing about it is that many if not all the syndicates are organized by brokers. In many quarters brokers are blamed for adverse results (a general manager of a leading company expressed recently the hope that the first passengers to the moon would be insurance brokers).

One must suppose that a Lloyds underwriter is a man who knows exactly what he wants and should he have a board of directors above him, he would not allow his principals to interfere with his underwriting.

This is, I am afraid, a weak point in the underwriting policy of stock companies. I have seen the opinion expressed in annual reports to shareholders that thanks to the foresight of the directors, by the use of judgment in investments, the company could pay a dividend notwithstanding an underwriting loss. This may be at the root of the present world wide underwriting difficulties.

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Of course, reduction of management expenses could contribute (Lloyds have an average expense ratio of 2.5% only) to improved underwriting. But how can this be brought about? It is gradually being admitted that mechanization is not a source of increased efficiency resulting in a reduction of overhead expenses. Exchanging opinions with a group of executives of three leading companies and two average sized offices revealed that decentralization in their minds was the way to higher efficiency and reduced costs. But this is not possible because in a general way directors would not accept business to be transacted elsewhere than at the head office. Lack of confidence is translated into impossibility to find a trained staff (only those at head office are fully competent, one would think). A general manager of a leading office somehow thought that in his opinion this sad state of affairs arose out of excessive reinsurance facilities.

In that connection a leading reinsurance broker used to advertise that "Reinsurance was the key to successful underwriting." I do not think so, far from it.

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If there is an all around loss on insurance transactions, reinsurers are the first to suffer. Of course technical losses are offset by income on investment and this state of affairs is not new at all.

Though from a practical point of view it is very nice having a reinsurer that can, while experiencing an underwriting deficit, go on year after year meeting all its liabllities towards its ceding companies, which in turn allows the ceding companies to meet all their liabilities towards their insured even long after all the premiums received have been spent, it is unsound.

Last September those who went to Monte Carlo to transact reinsurance business, as ceding company, reinsurer, or broker, were handed a questionnaire, which was completed by almost every one who attended. While the complete results of this inquiry have not been circulated, it is understood that more than 85% of the replies are in favor of an annual meeting to be held in Monte Carlo in September, 1958. Owing to an international convention of air carriers, the 1958 meeting will be held the third week in September.

The committee who planned last

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year's meeting and of which Andre Roux, president and general manager of Compagnie des Assurances Generales Accident of Paris, is chairman, has been enlarged to include: M. de Bothello, director of Sociedade Portugesa de Seguros, Lisbon; Per Hanson, managing director of Storebrand, Oslo, and G. Martin, general manager of Royale Belge, Brussels.

The other members of the committee which initiated these gatherings are N. Bittner, director of Anglo-Elementar, Vienna; C. C. Callburn, manager of Mercantile & General, London, M. de Mori, manager of Unione Italiana di Riassicurazione, Rome; M. H. Greilshaber, general manager of Union, Zurich; L. Hermida, manager of Union et El Phenix Espagnol, Madrid; G. Kalderen, manager of Skandia group, Stockholm; M. Rauxenhoff, general manager of Universeel Re, Amsterdam, and M. P. Sacerdoti, general manager Riunione Adriatica di Sicurta, Milan.

Whether the 1958 meeting will present a technical program, or whether negotiations will proceed to form an international union of reinsurers is as yet not known.

This apparently is only a European organization, and reinsurance being a world wide business, perhaps a day will come when other parts of the world will be represented, mainly North and South America, where the reinsurance business is of great importance. Monte Carlo could very well be an appropriate place for North Americans to meet their South American counterparts.

Reinsurers See Dim Outlook For 1958

(CONTINUED FROM PAGE 17)

either very good or very bad for some reinsurers, it is said. One explanation for this is that where the surplus business has produced a profit for the reinsurer the ceding companies kept the dwelling business net. It is, to a considerable extent, the dwelling business that has been nickeling and diming the insurers to death. (This has been the case also to a considerable degree on the 5/10 liability limits in auto.)

The reinsurers appear inclined to believe that the fire business is not going to fashion its own salvation very soon by way of rate increases. Relatively few increases have been filed. Also, it is difficult to see how rate increases can be vigorously pushed in the face of the fact that the business increased commission rates on many fire lines in the last two or three years. Reinsurers think the reality of the situation precludes prompt and vigorous pressure for rate increases when primary insurers in general have not yet tackled the problem of acquisition cost.

In addition, so much of fire is on a three to five year term that even after the rate increase is effective, companies will get more money only very slowly. Then statistical compilation and rate processing is substantially behind currency. This is inevitable under the best of circumstances. Possibly there could be a little acceleration in the recording, analysis and delivery of figures to rating bureaus. Perhaps these figures could be put into form for filing a little more quickly than in the past. But the nature of this function is basically such that insurers have to lose the money and then wait until they can prove they lost it before they can get authority to collect it. This may be regarded by some as a flaw, but it is a basic characteristic of American rate making, for both fire and casualty.

The reinsurers with the best of 1957 results report that fire is either just at break even or in the red perhaps a point or two. For some reinsurers the allied lines have sweetened the fire experience enough to keep it slightly in the black. For other reinsurers the allied lines, notably ocean marine and hail, have pushed the fire business into the red. This is on an adjusted basis and discounts the underwriting loss attributable to increases in premiums.

The fire business, however, may get some relief from the outside, from what is happening in the general economy. The number of layoffs and the total number of unemployed are increasing. Work productivity here and there is going up. Costs of those things for which an insurer pays when it has a property loss may level off or even come down in the foreseeable future. It is estimated that there will be four million unemployed by next year. It is a notable fact that when personnel is laid off, the remaining members of the working force are stimulated to do more work in the same length of time.

While frequency of fire losses has increased to a degree, the chief effect on the fortunes of the insurers has been exerted by the much larger per loss cost. If that were to come down from its high perch, insurers might get enough relief to offset the rise in acquisition cost and improve the prospects in fire for insurer and reinsurer. If, however, the per loss cost doesn't come down, the sliding scale used by reinsurers will not continue to keep reinsurers below the 100% line. Its flexibility will be exhausted and more.

Catastrophe covers written against the extended coverage seem headed for a generally profitable year. There were a great many storms, hail and wind, but few reached giant catastrophe proportions which the business has grown to apprehend.

The real catastrophe cover today is water damage, in the sense of difficulty of finding a reinsurance market for homeowners C and inland marine forms. The losses paid as a result of the July flooding in Chicago gave the reinsurers a taste of the catastrophic possibilities under these forms, which will grow as their replacement increases.

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The reinsurers may show a small actual profit on liability business, including automobile liability. This is an odd fact, in view of the sharp rise in automobile liability losses at the primary insurer level. For some time the reinsurers have been expecting to feel the surge of auto liability losses since the upswing in experience began to hit the primary insurers hard more than a year ago, in 1955. But so far, reinsurers report, they have not felt the effect of the rise in claim costs with which the primary insurers are having so much difficulty. The reinsurers are not at all certain that they will not get hit, which means that liability, now slightly in the black, would move quickly to the loss side of the ledger. But with the counter inflation factors that are developing, it is just possible that the reinsurers will escape, perhaps a good deal, of the insurers' difficulties in this field. It may be that the liability difficulties will remain more a matter of frequency than severity. It is severity that belts the reinsurers.

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Reinsurers generally dislike the excess limits table and think it is ridiculous. Theoretically the insurer is supposed to buy reinsurance with the premiums it gets for excess limits. But when the top layer of a $500,000 limit is sold for $1.25 to insured who would pay $50 for it, the result is ridiculous. Everyone else charges for luxury items. This is the great bargain of the century. Quite a while ago, of course, the reinsurers quit selling liability, particularly automobile liability, at the excess limits table rates. It will be, it is said, difficult to get any increase in such excess limits premiums since there is no separate accounting of experience on this portion of the business, except in a general way, as reinsurers pay for excess limits losses.

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One reason the casualty business is perhaps slightly in the black is the built-in safeguard of sliding price—a sliding commission or a sliding rate. This is an adjustment-to-conditions factor. However, the reinsurers indicate that about all the flexibility that has been built in has been used up on the casualty as well as on the fire side.

Bonding business is bad. Contract business has been bad for three or four years—the reinsurers believe because it hasn't been written properly. It should be written only one way, they say, under a mandatory treaty. The reinsurer has been allowing the ceding company to select the contracts to be reinsured. In other words, these treaties have been optional. There is currently a move in the reinsurance field to get rid of optional treaties for this business. One company that adopted a sliding commission for this business indicates that this adjustment factor has improved its experience in the bonding field.

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However, bonding is expected to be a little better in 1958 because prices are tending to come down a little. There is pressure on labor as unemployment goes up. This is not regarded as anything like the situation when the Hoover Dam was built—it was bid in during boom times and constructed during the depression. Nevertheless, 1958 should see a slight easement in the bonding field. With improved labor productivity, deliveries should improve. When materials are not delivered on dates specified by the contractor, he loses money because his labor is there to pay but the material did not arrive. The labor is standing by.

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This trend is of course too late to save those contracts already in difficulty but that the reinsurers don't know about, but it should help for futures

General Re Unit Gives Admitted Market

(CONTINUED FROM PAGE 18)

the development of fire covers written for heavy industry on an excess of loss basis, Mr. Frey commented. The only underwriting tools available to handle ordinary fire risks on an excess of loss basis would be a cloudy crystal ball or a pair of dice, he added. "From custom and common sense, therefore, reinsurance of individual fire risks is always handled on a pro rate basis."

The facultative fire reinsurer must allow the ceding company sufficient ceding commission to cover original acquisition costs, taxes and board fees and allow something to cover the expense of the transaction. A glance at the average annual underwriting results of American fire insurers would show too narrow a profit margin to cover the expense of facultative handling if the business were approached on the basis of an average cross section participation. The General Re's fire facultative department, therefore, almost invariably requires that the ceding company retain their normal full line, both as to net participation and treaty reinsurance, before offering additional capacity. In addition to the protection afforded by the basic facorable selection or risk thus obtained, each risk submitted, just as in the case of casualty offerings, is carefully analyzed and appraised by experienced underwriters.

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The reasons for the need of these facilities are many and interesting to analyze, Mr. Frey commented. In fire business the need of additional capacity not only stems from increased values resulting from the growth of business and industry compounded by inflationary factors, but also from the buyers' demand for fewer and simpler policies and the producers' battle against expenses. The question of capacity can also result from accumulation of liabilities under increasingly popular package policies or from con-

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centration of exposures at a given location under separate policies.

In the casualty field the reasons are far more complex, he added. This segment of the insurance business barely enjoyed an infancy before prodigious growth was forced upon it. Where public interest required that statute amplify common law such as in workmen's compensation and automobile liability business, its childhood effort of free enterprise was blighted by confusing political and sociological factors. It obviously required some of the orderliness, stability and self regulation of the fire, marine and life fields and was just beginning to acquire these attributes when in its youth there fell the cruellest blow of all.

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The decade following the application of interstate commerce to the insurance business and the resultant passage of public law 15 will undoubtedly go down in the record as the most troubled years of the casualty insurance business, he observed. They might well have been years of decision and time spent in the creation of solid and sound foundations for the growth of an industry which in itself must be looked upon by the public as the very essence of stability. Instead, the year 1957 will produce results sufficiently shocking to bewilder the industry and seem incredulous to the public.

This law itself created a false hypothesis in providing that the rating of insurance should not be discriminatory, Mr. Frey pointed out. The very essence of intelligent underwriting of risks is discrimination between the hazards and exposures to loss presented by individual risks and the quotation of rate and premium. Complete similarity between risks can be only coincidental.

Faced with this basic denial of fact, casualty underwriters and those charged with regulation of the business have scrambled and searched for every conceivable means permissible within the framework of the law properly to discriminate in acceptance and pricing of risks to fulfill the essential requirements of insurance underwriting.

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"The manuals, which once served as guides to judgment and could once fit in a desk's top drawer, now assume the authority of tomes of legal statutes and will easily displace Dr. Eliot's five foot shelf," he said. "The ingenious and devious escapes from the shackles imposed by the first fumbling steps towards rate control are without number and have nowhere near reached the ultimate degree of confusion towards which they are headed. To name a few, we have experience rating plans based upon the so-called model rate law and deviated from by independent filing companies with provision for so-called schedule rating. Retrospective rating plans A, B, and C, which were just as simple as that, received the actuary's polish and refinement in that algebraic nightmare entitled *retrospective rating plan D.*"

In 1946 the reinsurance industry received a wholesale demonstration of the complete fallibility of the ponderous rate making processes employed to develop premiums supposedly sufficient to permit a reasonable profit in the casualty business. Devalued dollars devalued retentions under reinsurance treaties. The experience on which rates were predicated was two or three years old. The delayed questions put to juries by crowded court calendars were answered by a very acute appreciation of both economic and social trends.

The reinsurance industry was still master of its own fate, he said, and for its survival it became necessary to present the insurance business with the bill. The resultant consternation and upheaval is still vividly remembered. Rates were substantially increased. Increased limit tables were completely revised. Agonizing reappraisal of reserves pointed to the wisdom of early out-of-court settlement and also the need of loss development or trend factors—a new unknown quantity in rate making formulas. Underwriters were handed lists of prohibited classifications to match new exclusions under reinsurance treaties. Agents and brokers were cast adrift in the seller's market that followed. In addition to other obvious causes, retrospective rating of reinsurance treaties was instrumental in putting the previous drive to sell larger amounts of insurance into reverse gear.

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"Regardless of all the problems and devious routes it must take, any insurable risk can find a market at a price," Mr. Frey observed. "Since the upheaval in 1946 we have seen the truth of this statement. We have witnessed the creation of specialty companies, confining their activities to one or more lines of business on the basis of special filings above and below tariff rates, giving recognition to the peculiarities of the business they handle or their special aptitude for handling it, often sapping the profit from larger undertakings attempting to provide more complete markets. We have seen the creation and fantastic growth of direct excess markets seeking to provide an intelligent answer to the demands of capacity created by the greatest period of inflation in the history of our national economy. We have also seen tremendously increased activity in the surplus or excess line fields. The law did not prohibit an underwriter from saying 'no', and one obvious result was the forced deportation of insurable business to non-admitted markets free and ready to charge the rate that judgment required, conscience permitted or traffic would bear.

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"Today, more than 10 years later, we find the casualty business in dire straits again. Portions of the blame may be placed on external factors such as rate regulation, ponderous and retrospective rate making processes applied to a prospective problem, tax and investment considerations, inflation and fantastic technological developments. When all is said and done, nothing should excuse the real culprit —unsound underwriting. And yet there are ready and valid excuses to be found in the basic system of handling most lines of insurance in this country.

"These shortcomings are the limited capacity provided by the collective efforts of the company and its reinsurer and the inherent inflexibility of underwriting by class of risk or book of business, coupled with dependency upon reinsurance negotiated on the same basis. This basic approach means that profit or loss will be determined by the results of the average risk within the given class or book.

"Our insurance companies, by means of stated underwriting policies, attempt to narrow the average by prohibiting the acceptance of specified risks by their underwriters," he continued. "Reinsurance treaties themselves contain exclusions of certain defined risks. Beyond the scope of these concrete prohibitions are countless individual risks which are declined on the basis of underwriting judgment. Remembering that any legitimate risk is insurable at a price, we must recognize that underwriting judgment in the American system of insurance is more the exercise of common sense within the confines of sound company policy than uninhibited consideration of the risk on the basis of its individual merits. He is permitted to exercise discriminatory judgment only in the case of large risks which qualify for his rating plans but which represent a minor percentage of his writings. Otherwise, he has the privilege of saying 'yes' or 'no' and the obligation of remembering that the entire machinery may be upset by the acceptance of a risk which seriously departs from the average."

What, then, happens to the risk that departs from the average to the extent that the company is unable or unwilling to handle it, Mr. Frey asked. Basically, it can differ from the norm in either or both of two ways—the unusual nature of the hazard involved or the amount of insurance required.

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Perhaps the company is willing to handle a portion of the risk—less than could seriously affect their reinsurance treaty or perhaps even less than its normal net retention. In that event, if a competing company can do no better, the balance of the risk may be abandoned to one or more of a few domestic competitors who individually rate and handle excess risks as a sideline. More likely, the balance will be exported through several intermediaries to excess markets abroad.

Perhaps no American company is willing to handle even a portion of the risk, he remarked. In that event, it is usually branded as distress business by the execution of affidavits which, under the surplus lines law of most states, testifies to the lack of an American market and serves as a passport for deportation of the risk to non-admitted insurers free to charge what the traffic will bear. The sobering and frightening fact to Mr. Frey is that these misfit risks are not the logical numerical exceptions one might expect to any law of averages. Measure instead by annual premiums in the neighborhood of $50 million in Texas, more than $20 million in California and note a 100% increase in volume in New York for each of the past three years.

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"Only part of the solution to this problem lies in practical administration of our rating laws and in the introduction of sufficient flexibility into our rate making processes to permit the creation of domestic markets for such business at premium commensurate with risk," he declared. Another partial solution lies in preventing abuse of the surplus lines laws and procedure which all too often technically legalize truly discriminatory rating of both good and bad risks by foreign insurers. A world insurance market is a necessity for the adequate spreading of the reinsured exposures of American companies and also for the dissipation of enormous amounts of insurance involved in many individual risks of commerce and industry. On the other hand, American insurers are showing strained patience with unfair competition from foreign insurers in areas of normal business which they consider their rightful responsibility and province, Mr. Frey said.

It is these misfit risks which are

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being presented in increasing number —by the first underwriter they confront—to General Re's facultative department. The full facts of the case are readily available and additional information required easily obtained. The underwriter decides what retention or participation his judgment and his company's facilities and policies indicate. He then adjusts the net quotation he is given to include it in his gross quotation to his customer. The reinsurance certificate is issued upon receipt of a copy of the company's original policy, and the producer and his insured receive one policy for the full amount of insurance required.

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Obviously the desks to which these problems come provide unique vantage points to survey the entire company underwriting scene. Being a collection point for unusual risks, the department also has become a clearing house for information concerning new developments and unusual covers. Thus, when a prize of $25,000 was offered to anyone catching a tagged fish in Chesapeake Bay within a few months period, and insurance protecting the advertisers' offer and the fish from the angler's hook was sought, no less than four companies contacted the General Re department for reinsurance quotations and rating assistance.

The calls for liability insurance for artificial rainmaking and for the operation of a snake farm have been given the same unruffled reception as the harried underwriter who wanted to know what in the world could and should be done about a half million dollars of coverage on a two hundred passenger Polynesian catamaran to be used on inland waterways. Insurance against low water supply, impairment of chickens, for cog-wheel railroads, underground caves, demolition of chimneys and broadcasting towers and a myriad of other unusual problems are all handled with the same process of assembling and appraising all available pertinent facts and then offering quotations to enable the original company to provide the requested market.

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The department's book of business achieves balance not only through spread of risk across lines of insurance but also against the problems of risks involving unusual or hazardous exposures there is a balance obtained from pure capacity problems where the exposure to loss is more theoretical than real, Mr. Frey stated. Operating with a capacity of $1 million each line of insurance, the department is frequently called upon to arrange for or assist in the handling of larger amounts. Through the cooperation of other American reinsurers and the General Re's contacts with world markets, risks involving up to $5 million may often be handled within a matter of hours.

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Thus, assistance is provided an insurer to issue a steam boiler use and occupancy policy for $25 million; securities in an equal amount on deposit in a bank are insured; a large casualty company, with the aid of $2,500,000 is enabled by the admitted reinsurance provided to issue a single limit blanket liability policy to a large manufacturer in the amount of $10 million each accident or occurrence; a large oil company buys $5 million liability cover in addition to $15 million already placed; earthquake insurance involving far greater sums is completed and an automobile manufacturer is able to buy $10 million of excess workmen's compensation insurance.

Capacity problems can have built in headaches, Mr. Frey admitted. Preserving continuity of coverage through layers of excess insurance can be difficult when contract terms fail to meet the approval of all the insurers involved. Net lines of participants from direct and reinsurance commitments must be computed and admitted reinsurance added to make certain that no insurer is exposed to loss in excess of 10% of its surplus to policyholders as required by law. Then there is the problem of a saturated market. Frustration is the only word to describe the attempted placement of millions of liability insurance on the third stage of an intercontinental ballistic missile when it developed that the manufacturers of the first and second stages had completely exhausted the normal market.

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From this point of vantage, Mr. Frey made several general observations and drew several specific conclusions. A condition which is practically industry-wide is that over-emphasis on production has not given way sufficiently to underwriting to point to an early shift from loss to profit, he said. No two companies have identical underwriting policies as far as desirability of class of risk is concerned, and degree of success or failure seems always to return to underwriting astuteness.

One company points out that their most profitable automobile classification has been the class 2 driver. When asked for an explanation the reply was "Oh, we really underwrite *that* business."

In general the frustrating red tape and the sometimes incompetent administration of rate regulation has driven the expense conscious underwriter away from consideration of the risk which requires special handling and filing. Witness the case of the underwriter who filed a rate 10 times the prescribed manual rate. His filing was returned with the request that he explain how he had arrived at the rate requested. In pique of a Friday afternoon he returned the filing with the red pencilled notation that he had moved the decimal point to the right one place. The sequel to the story is that the filing met with rubber stamped approval, and the rate turned out to be insufficient.

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In the fire field optimistic, Mr. Frey continued, appraisal of modern techniques of fireproof construction have sometimes resulted in the promulgation of rates insufficient to handle a normal expected frequency of scrap basket fires. There is a welcome trend in the fire field towards service to the public in the development of package policies and more flexible underwriting approaches, "but here again we see inexcusable collision with either self or externally applied bureaucracy. An insurance buyer faced with maintaining a $250,000 structure which he would be happy to replace with a modern $50,000 substitute as a solution to his incentive to arson is told that because of rate regulatory and filing requirements he must disconnect his sprinkler system in order to obtain intelligent insurance. Such problems are admittedly oddities, but the frequency with which they occur and the obvious damage they cause to an industry created for and connected to public service give cause for grave concern.

In the casualty field, Mr. Frey commented, small and medium sized companies in a period of production, expansion and competition have ventured into new territories, forgetting fully to appreciate that casualty business must be underwritten not only by line and class but by state, city, town and hamlet. Territorial rating of automobile business varying as much as 400% in various parts of the country affords a general clue. In the fact that specialty lines such as malpractice risks and taxicab business can vary according to prevailing rate levels as much as 300% in cities 30 miles apart there is proof that familiar knowledge of and close contact with local conditions are prerequisites to the success of any casualty operation.

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In the buyer's market which has prevailed, careless tampering with tested policy form and language has been an invaluable production tool. Property damage liability risks have been and are being written on an uninhibited "occurrence" rather than "caused-by-accident" basis given rise to insurance against losses far beyond contemplation of the underwriter, Mr. Frey said. The products liability policy stands in grave need of revision in order to prevent its being purchased to underwrite and guarantee the performance of manufacturer's inadequately tested experimentation in fields of chemistry, medicine, cosmetics, and synthetic materials.

Elimination of the normal exclusion of property in the care, custody or control of the insured under liability policies without thorough underwriting frequency finds the casualty underwriter providing unintentional and, of course, inadequately rated substitutes for fire, inland marine and other forms of property insurance. When the underwriter for a percentage pittance amends his policy to apply to property in the care, custody and control of his insured, he often provides a cut-rate market for fire and other forms of property insurance. How many liability underwriters know that when they broaden their policy to cover accidents occurring or happening anywhere in the world, they are affording coverage for their insured's cargo's share of general average on the high seas. And yet the irony of this trend towards inept tampering with standard forms of coverage, noticeable particularly on the West coast, is that insured is often left with more restrictive cover than is provided under standard policy forms.

Mr. Frey also commented on the blind faith in manuals in casualty, misunderstanding of the value of the dollar in reliance upon increased limit tables, and failure to recognize the fallacies of experience rating plans and the basic impropriety and unsoundness of their being applied to catastrophe exposures.

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Faced with an L. P. gas risk, the underwriter can issue a comprehensive liability policy at a prescribed minimum premium of $225—turn to the storekeepers section of the manual and with the aid of a prescribed endorsement can find presumably actuarial justification for providing equivalent coverage for $25. Rates are published for stevedores property damage liability. This type of risk is written on the basis of far broader coverage at a fraction of these rates in the unregulated ocean marine markets. The lumberyard next door to a paint manufacturer, a gasoline and oil bulk plant and other valuable and susceptible property can buy property damage liability, including the fire risk, rated on a payroll basis at a fraction of what the same casualty manual or the fire underwriters manual prescribe for fire legal liability only using calculable, insurable values as the basis of rating.

One has only to remember that most of the tabular percentages for increased amounts of liability insurance were revised more than 10 years ago to realize how far behind these inflationary times they are. There can be recognized credibility in the broad base of experience behind the rates for basic limits established for classifications including hundreds of thousands of policyholders in each rating territory. The mere thought, however, of applying similar percentages of increase for additional amounts of insurance on risks with high frequency and low severity to those with negligible frequency but serious loss potential is ludicrous. An obvious conclusion is that the level at which "A" rating is available and the need for judgment rating clearly indicated should be substantially reduced.

In the automobile field, Mr. Frey observed, it is clearly obvious that the limit tables between basic limits and $50,000 per person are woefully inadequate. In the space of one rating period it is estimated that eight million cars with average horsepower of 100 were replaced by the equivalent number of new cars averaging 200 h.p. Small wonder that tariff rates based on the average experience of a few previous years produced shocking countrywide underwriting losses.

"Compound these fallacies and errors with yet another, the current application of experience rating to casualty business, and perhaps we have a brief summary of its principal ail-

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ments as seen by faculative underwriters at General Re," Mr. Frey said. "Accident prevention and loss control are factors which deserve recognition in the rate making process as far as areas of loss frequency are concerned. Regardless of the high degree of perfection achieved in both respects, recognition must be given to the fact that accidents will happen and catastrophes will occur, often under the most unpredictable circumstances. Our current experience rating plans, geared to permissible loss ratios, require the insurer to give back the premium dollars collected to pay for the catastrophe covered by the policy which has not occurred. When it does occur the dollars must be borrowed from the profit derived from business not subject to experience rating. Translate, if one can, this theory to the fire business and consider the thought of returning premium or reducing rate on a risk because it has not been totally destroyed by fire in the previous three to five years."

Indirectly, Mr. Frey pointed out, General Re's facultative operations are very much concerned with many of these problems. The effort of the company to provide tools and capacity to assist American insurers to provide flexible markets for legitimate insurance needs are hampered by the very same obstacles which confront the original underwriter. He has many tools available to exercise judgment rather than taking the option of saying "no" or performing clerical functions according to manual rate, rule, and rating plan. They are cumbersome, awkward tools with a different one needed in many states. "Unique and unusual risk" rules, "A" rating rules and, for that matter, the rule for rating surplus lines which enables him to use the same device employed by non-admitted carriers to obtain freedom to exercise rating judgment—all are available to the primary underwriter.

"This machinery in time and through reason must become simplified—but we will progress in the right direction only if the tools do not become rusty through lack of use and only if insurance underwriting for public service is restored as the prime purpose of both insurance companies and their reinsurers," he said. "Management must underwrite for profit and thus attain the stability, strength and flexibility necessary to provide public service. It must require the underwriters it employs to do the same. Then, and only then, will we avoid the outrageous peaks and valleys of profit and loss which are practically incomprehensible to the public and those in other industries. And then the underwriting profession can derive some satisfaction and respect for its performance."

In addition to multiple line reinsurance facilities, this department of General Re also provides a market for direct exeess reinsurance of established self-insurers. Here, the basic problem is underwriting the individual risk also. Instead of three years of experimentation, however, there is a background of more than 30 years experience in the field.

Despite that fact that many industries are larger than the insurers which provide them with insurance and are financially able to pay their own normal losses, the pros and cons of self-insurance vs full insurance will always be debated and clear conclusions reached in very few cases.

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Reinsurance Has Self-Insurance Function

(CONTINUED FROM PAGE 20)

should be considered when contemplating a program of self-insurance.

1. *Financial Position* Is the company financially sound? Financial stability is essential to any self-insurance program. If the company's working capital is tied up in loss reserves, the resulting financial position could lead to financial ruin.

2. *Distribution of Risk.* Is there sufficiently large number of units of exposure present to enable the law of large numbers to operate effectively? Spread of risk is important to the self-insurer as it must be prepared to predict losses with reasonable accuracy. With respect to fire perils, however, one large plant with many divisions separated by party walls may constitute sufficient distribution of risk.

3. *Reserves.* For a self-insurance program to operate effectively, sums should be transferred periodically to an earmarked fund which is not available for any other purpose. The reserves should be actuarially sound and in the beginning it is advisable to base the reserves on commercial insurance rates. Later, as the expeience becomes more credible, the amount transferred can be based on the average cost of losses over the years.

4. *Loss Prevention.* The importance of adequate inspection, engineering and loss prevention facilities to the self-insurer cannot be over-emphasized. Much of the success or failure of a self-insurance program depends on the ability of the self-insurer to control and prevent losses. Since reductions in accident frequency and severity represent a savings in out-of-pocket loss, the self-insurer receives the full benefit of its preventive efforts. If the self-insurer does not have suitable safety engineering and inspection facilities, it may utilize the services of a professional organization which specializes in this type of work. We shall discuss this type of organization in more detail in connection with workmen's compensation.

5. *Loss Adjustment.* Does the company have the means properly to handle its own losses? Satisfactory loss adjustments require qualified personnel capable of investigating loss reports, paying claims and defending against law suits, if necessary. Here too, the same type of professional organization mentioned above may be employed by the self-insurer if it does not have the personnel to handle its own claims.

6. *Management.* For a self-insurance program to function properly, it should be adminstered by a competent executive whose experience includes a wide and diversified insurance background. Complete and accurate records should be maintained to determine the cost of the self-insurance program and the services of the accounting, statistical, engineering and legal departments should be utilized wherever necessary.

7. *Taxes.* Under current tax laws, although insurance companies are permitted to treat reserves as legitimate deductions, self-insurers are not permitted to do so. Only those losses which are actually paid during the taxable year may be deducted by self-insurer.

From an analysis of the above factors it would appear that as a risk bearer, the functions of the self-insurer are very similar to those of a commercial insurer and that both operate in much the same manner. If it is necessary for the commercial insurer to stabilize its experience through reinsurance, would it not also be necessary for the self-insurer to protect its peak liabilities in the same fashion?

How does the self-insurer go about protecting peak liabilities? To what extent is reinsurance applicable to self-insurance? To answer these questions we shall discuss the problem of reinsurance for self-insurers in workmen's compensation.

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The line of insurance most frequently self-insured is workmen's compensation. Many large risks have sufficient spread to provide a broad base for predicting average losses and they believe that by self-insuring they can save money. Self-insurers contend that the base rates for various classifications in workmen's compensation insurance are based on the experience of all risks in a particular classification, the large and the small, good and bad alike. In commercial insurance you pay in advance for losses which may never happen, whereas, the self-insurer pays only for his actual losses as they occur. Since 40% of each premium dollar is allocated for operating expenses of the commercial insurer and only 60% is allocated for payment of losses, the self-insurer believes he can save money by eliminating the expense factor.

Large self-insured risks are not unduly concerned about normal loss frequency. However, a single catastrophe loss could seriously jeopardize the company's financial structure and therefore the self-insurer must protect itself against such contingency.

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Many workmen's compensation statutes recognize the need for such catastrophe protection and require the self-insurer to maintain evidence of such protection. What form such protection takes depends on the company granting it. While technically it may be called excess of loss insurance, many authorities frequently refer to such coverage as "reinsurance of self-insured plans." Moreover, under the New York workmen's compensation law, the chairman requires tangible security against catastrophe loss usually in the form of a standard excess *reinsurance* contract of not less than $1 million over a retention of not more than $50,000 against loss arising out of one accident.

Such protection is known as "*specific* excess reinsurance" as distinguished from "aggregate excess reinsurance," of which we shall speak more later.

Specific excess reinsurance is pure catastrophe excess of loss coverage designed to protect the self-insurer against a large shock loss arising out of a single accident or occurrence. It is mostly judgment rated, although attempts have been made in some states to establish rates based on a formula method.

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Since benefits under the various workmen's compensation laws are continually changing, and with the advent of more and more unlimited medical benefits, it is difficult to devise a definite formula for rating excess of loss workmen's compensation coverage.

While the base rate does give the underwriter a starting point, each risk must be treated on its own and the cost depends on loss experience, type of industry and the size of the retention. Naturally, the higher the retention, the lower the cost.

An alternate plan which is particularly valuable to companies starting a self-insurance program is "aggregate excess" reinsurance or "stop loss" reinsurance. This type of protection also appeals to self-insurers whose size is not large enough to secure adequate stability of losses.

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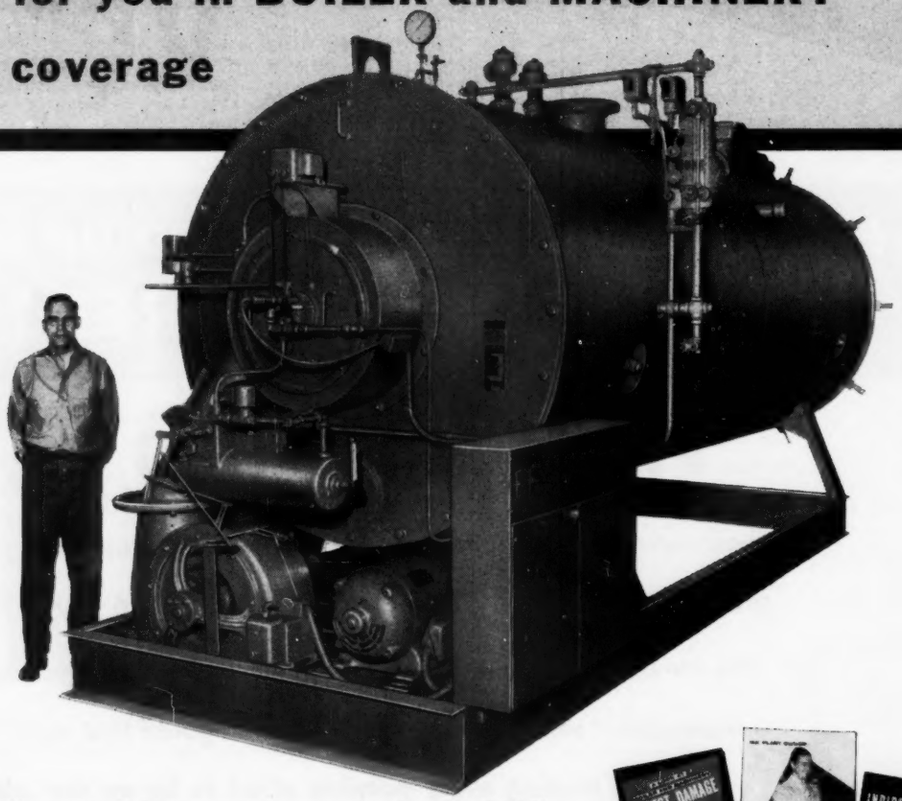
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